

The impact of FNGO services on the performance of  
micro and small enterprises: Empirical evidence from  
the Volta Region, Ghana

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Doctor of Philosophy

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## **Abstract**

Financial Non-Governmental Organisations (FNGOs) are regulated microfinance institutions (MFIs) that operate with the social welfare logic in the delivery of Microcredit (MC) and Entrepreneurship Training (ET) to the poor in Ghana. The provision of these two capitals (MC and ET) is aimed at supporting the poor to create sustainable Micro and Small Enterprises (MSEs) which is aimed at generating both skilled and unskilled employment. The major aim of this study is to investigate the impact of MC and ET delivered by FNGOs on the performance of MSEs in Ghana.

Theoretically, the study adopts both the Institutional Theory and the Resource-Based View theory as the underlying theoretical frameworks, assuming that institutional and resource factors have a great influence on FNGOs in their delivery of MC and ET to MSEs in Ghana. The research design adopted in undertaking this study is based on the pragmatic research philosophy. Specifically, the mixed strategy with an explanatory triangulation method has been used. The mixed method has been adopted purposely for model testing as well as for exploring various issues on FNGOs and their role in the performance of MSEs. Primary data were collected through a quantitative method using a survey as well as through qualitative interviews.

Adopting a stratified random sampling method, a total of 720 self-administered questionnaires were sent out in March 2017 to MSEs in the Volta Region of Ghana to collect primary data. Out of the number sent, 506 questionnaires were retrieved generating a response rate of 70.2%. Also, interviews were conducted with 10 MSEs. A multiple regression model was applied in measuring the impact of MC and ET on the performance of MSEs. The findings suggest that firm characteristics such as gender, managers educational level, industry category and business age

correlate positively with employment sales and profitability growth which are statistically significant at 1% level. Secondly, the study also found that both MC and ET factors have a significant impact on MSE performance in the areas of employment, sales and profitability at 1% significant level. The qualitative findings also support the model tested in this study in the sense that the combined approach of both MC and ET have a significant impact on MSE performance in Ghana.

This study has made two main contributions. Firstly, the provision of MC by FNGOs can only have the desired impact on the performance of MSEs if it is combined with entrepreneurship training, thereby leading to a sustainable employment, sales and profitability growth. Therefore, by using the 506 MSEs financed by FNGOs in the Volta region of Ghana, this study has for the first time in the Ghanaian microfinance landscape tested an empirical model and came out with meaningful findings for effective integration of ET into microfinance to improve the delivery of financial services to MSEs in Ghana by FNGOs and other socially oriented MFIs. The study has therefore developed a practical framework for ensuring that ET is provided alongside the delivery of MC in order to have the desired impact on the performance of MSEs. The study provided implications for policy and practice for making MC and ET more accessible to MSEs to achieve the desired goal of creating employment.

Secondly, even though FNGOs play a very important role in providing entrepreneurial finance to MSEs particularly in developing countries, it has received insufficient research attention. This study has, therefore, added to the scanty research available about FNGOs and their contribution to entrepreneurship development and poverty reduction in developing countries.

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## Related Publications

The following publication has been done during the course of this research:

1. **Atiase, V.Y.**, Mahmood, S., Wang, Y. and Botchie, D. (2017) “Entrepreneurship development in Africa: investigating critical resource challenges”, *Journal of Small Business, and Enterprise Development* (ABS\*\*). Available at:  
<http://www.emeraldinsight.com/doi/pdfplus/10.1108/JSBED-03-2017-0084>
2. **Atiase, V.Y.**, Wang, Y., Mahmood, S. “FNGOs and financial inclusion: investigating the impact of microcredit on employment generation in Ghana. *International Journal of Entrepreneurship and Innovation* (under 2<sup>nd</sup> Review, ABS\*\*)
3. **Atiase, V.Y.**, Mahmood, S., Wang, Y. “Does managerial training have any impact on the performance of MSE managers?” *European Business Review* (under 2<sup>nd</sup> Review, ABS \*\*).

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## **List of Abbreviations and Acronyms**

<b>ANOVA</b>	Analysis of Variance
<b>BOG</b>	Bank of Ghana
<b>DA</b>	District Assembly
<b>ET</b>	Entrepreneurship Training
<b>FNGO</b>	Financial Non-Governmental Organisation
<b>FUSMED</b>	Fund for Small and Medium Enterprise Development
<b>GOG</b>	Government of Ghana
<b>IDA</b>	International Development Agency
<b>IEA</b>	Institute of African Affairs
<b>MFI</b>	Microfinance Institutions
<b>MC</b>	Microcredit
<b>MSE</b>	Micro and Small Enterprises
<b>MASLOC</b>	Microfinance and Small Loans Centre
<b>MFCF</b>	Microfinance Capitalisation Fund
<b>NBFI</b>	Non-Bank Financial Institution
<b>PAF</b>	Poverty Alleviation Fund
<b>PPP</b>	Purchasing Power Parity
<b>ROSCA</b>	Rotating Savings and Credit Association
<b>RGDD</b>	Registrar's General Department
<b>SPSS</b>	Statistical Package for Social Sciences
<b>SFP</b>	School Feeding Programme
<b>SSA</b>	Sub-Saharan Africa

## **List of Key Definitions**

<b>Deprivation</b>	A state of lack of social, economic, political and psychological dimensions.
<b>Entrepreneurship</b>	The identification of opportunities whereby entrepreneurs could make a profit by introducing new goods and services to satisfy a market demand.
<b>Entrepreneurship Training</b>	Entrepreneurship Training is the provision of both business-specific knowledge and skills and general knowledge about how to create, manage and grow a business venture.
<b>Financial capital</b>	Refers to all kinds of financial resources which are available to the entrepreneur in the exploitation of identified business opportunities.
<b>FNGO</b>	FNGOs are specialised poverty-mission driven financial institutions in Ghana which are licensed by the Central Bank of Ghana to provide microfinance services to the poor.
<b>Institutional Theory</b>	A theory explaining the influence of different institutional settings on entrepreneurial behaviours and markets in a country and how these institutions themselves change over time in these settings.
<b>Micro Enterprises</b>	In the context of Ghana, a micro-enterprise is defined as any firm employing up to five employees or has fixed assets excluding land and building not exceeding \$10,000.
<b>Microfinance</b>	Microfinance is both the financial and non-financial intervention that employs certain innovative methodologies such as MC, micro savings and ET to the poor and the poorest especially in developing countries that do not have access to formal financial services to engage in an income-generating activity aimed at poverty reduction.
<b>Multidimensional poverty</b>	A concept of poverty where people's lives are affected by poverty in both economic and non-economic dimensions and occur within and are affected by the political, economic, social, and cultural conditions that exist around the individual.

<b>Microcredit</b>	The issuance of only microloans to the poor to invest in their businesses without any additional support services.
<b>Poverty</b>	Poverty is lack of productive resources to sustain a livelihood, lack of access to basic services such as water, health and education, hunger, malnutrition, increased morbidity, and mortality, and other kinds of deprivations
<b>PCA</b>	Principal Component Analysis
<b>Resource-Based Theory</b>	A theory of strategic management arguing for the competitive advantage organisations based on their internal characteristics and resources which are Valuable, Rare, Inimitable, and Non-substitutable.
<b>Human capital</b>	Refers to both cognitive and non-cognitive skills that the entrepreneur has acquired through education and experience, contributes to a large extent an entrepreneur's success
<b>Small Enterprises</b>	In the context of Ghana, a Small enterprise is defined as any firm employing between 6 and 29 or having fixed assets excluding land and building not exceeding \$100,000.



# **CHAPTER 1: INTRODUCTION TO THE STUDY**

## **1.1 Introduction**

Financial Non-Governmental Organisations (FNGOs) are regulated microfinance institutions (MFI) which operate with the social welfare logic in providing both Microcredit (MC) and Entrepreneurship Training (ET) to Micro and Small Enterprises (MSEs) in Ghana (Battilana & Dorado, 2010; Habib & Jubb, 2013; Xiang et al., 2014). These two capitals (MC and ET) are provided to the MSEs as an attempt to reduce poverty through employment generation which enables the poor to have a sustainable income to reduce vulnerability to poverty. For the purposes of regulation and monitoring by the Central Bank of Ghana, FNGOs are classified either as Tier II or III institutions with variations in their minimum capital, the focus of activity and operational zone (Bank of Ghana, 2015). While Tier II FNGOs are deposit-taking; Tier III FNGOs are supposed to depend mainly on the contributions from its founders but can raise funds from the capital market. FNGOs are controlled by several regulations in Ghana such as the Non-Bank Financial Institutions Act, 2008 (Act 744), the Bank of Ghana Act, 2002 (Act 612) and Act 673 of the Banking Act, 2004 (Bank of Ghana, 2007).

In many developing countries including Ghana, general access to financial capital is limited and, in some cases, non-existent (Schneider, 1997; Latiffee, 2000; Deb & Suri, 2013). This limited access to financial resources has contributed to the exclusion of the poor from accessing formal financial resources to engage in income-generating activities to support themselves and their households (Helmes, 2006). Research evidence provides some reasons for this financial exclusion. Notably, individuals are excluded from the formal financial system due to information

asymmetry challenges, lack of credit history, perceived risk associated with the poor, weak or unavailable creditor protection systems and lack of the required collateral to secure loans coupled with a general moral hazard by the traditional financial system (Lash, 2008; Haag & Henschel, 2016). Pathak and Varshney (2017), argue that remoteness from markets, inadequate access to suppliers, poor business infrastructure and the lack of skilled labour also make some individuals and their MSEs less attractive in sourcing credit from the formal financial institutions such as commercial banks. Due to the above challenges of financial exclusion, MC from FNGOs has become an important source of finance in the development of entrepreneurial opportunities for the poor in anticipation to reduce their poverty through their MSEs (Johnson & Rogaly, 1997; Morduch, 2000; Brau & Woller, 2004; Copestake, 2007). Therefore, without access to MC, financially excluded individuals who are usually poor will be unable to explore various entrepreneurial opportunities, create employment and have a sustainable income which has an impact on poverty reduction.

However, the poor do not only need MC in exploiting their entrepreneurial opportunities. Rather, apart from MC, the poor need human capital development to be successful in their entrepreneurial endeavours (Odell, 2010; Yang & Konrad, 2011; Drexler et al., 2014; Newman, Schwarz, & Borgia, 2014). This implies that for the poor to be successful in managing their MSEs, they are supposed to be equipped with the necessary business management skills. FNGOs, therefore, provide ET to MSE owners who are usually poor to equip them with various skills such as accounting, communication, marketing, negotiation and leadership skills.

MSEs are defined severally depending on the country and the geographical location in context. In the context of Ghana, a micro-enterprise is defined as any firm

employing up to 5 employees or has fixed assets excluding land and building not exceeding \$10,000. Also, a small enterprise is defined as any firm employing between 6 and 29 or having fixed assets excluding land and building not exceeding \$100,000 (Buame, 2012). Typically, there are two schools of thought on the study of MSEs and their impact on economic development and poverty reduction (Thormi & Yankson, 1985; Beck & Demirgüç-Kunt, 2004). The first school of thought emphasises the fact that MSEs create jobs, have an impact on the GDP of a country, and they serve as the vehicle for entrepreneurial development (Beck & Demirgüç-Kunt, 2004; Ojala & Heikkilä, 2011). The proponents of this view further argue that MSEs are better in innovation, productivity, and job creation than larger firms except that MSEs are impeded by their lack of access to financial markets and other forms of capital that are needed to support their growth (Snodgrass & Biggs, 1996; Bauchet & Morduch, 2013). The other school of thought argues against the efficiency of MSEs in job creation and providing any meaningful contribution to economic growth and poverty reduction. This school of thought argues that MSEs do not have access to the required forms of capital compared to large firms and can therefore not benefit from economies of scale in lowering their cost of production which can result into job creation and economic growth (Thormi & Yankson, 1985). Nevertheless, Nguimkeu (2014) argues that MSEs are important in Africa for two main reasons. Firstly, MSEs respond to poverty and unemployment in the sense that entrepreneurs in Africa drive job creation through small business formation activities. Secondly, MSEs in Africa are also considered as incubators for the creation of formal businesses. Tse and Soufani (2003) also argue that even in industrialised economies, small businesses contribute largely to employment generation, provides

customer focussed services, faster at network building as well as the provision of innovative services.

There is an abundance of evidence in the entrepreneurship literature which suggest that MSEs in both developed and developing countries contribute to economic development, job creation as well as poverty reduction among its citizens (Ozgen & Minsky, 2007; Teerakul et al., 2012; Schramm, 2013; Chan & Lin, 2013). For example, in high-income countries, MSEs are noted to generate about 65% of total employment (Pearlman, 2007). Similarly, in middle-income countries, it has been estimated that MSEs generate about 85% of total employment to their citizens (Abor & Quartey, 2010). Also, in low-income countries, MSEs are noted to generate about 70% of total employment for their citizens (Pearlman, 2007; Agyapong, 2010). Regarding MSEs' contribution to Gross Domestic Product (GDP), they have been noted to contribute 55%, 70% and 60% to high, middle, and low-income countries respectively (Agyapong, 2010).

In the context of Ghana, the impact of MSEs on job creation and poverty reduction is worthy of note. For instance, it is estimated that about 90% of firms registered in Ghana are MSEs, which consists of approximately 80,000, registered limited companies and 220,000 registered partnerships (Mensah, 2004; Agbozo & Omane Yeboah, 2012). More so, MSEs contribute 70% to Ghana's GDP (Mensah, 2004; Abor & Quartey, 2010). The role of MSEs in job creation, contribution to tax and export revenues, facilitating the distribution of goods and services and human resource development can therefore not be under-emphasised. This implies that the Ghanaian economy is highly dependent on the contribution from MSEs regarding its growth and employment generation.

Ghanaian MSEs are found in various economic activities such as agriculture, fishing, small-scale mining, food processing and other identifiable services (Mensah, 2004; Agyapong, 2010). About 3,200,000 representing 46 percent of all households in Ghana operate some form of MSE with women operating 72 percent of these businesses (Ghana Statistical Service, 2010). To ensure a sustained poverty reduction effort, MSEs in Ghana are supported to create jobs, which are mostly in the form of self-employment through the assistance provided by FNGOs. As suggested by Asarea et al (2015), MSEs would play a critical role in the development of the Ghanaian economy especially in promoting entrepreneurship if there were a continued support provided by the government, donor partners, trade associations and other non-governmental organisations. However, even though MSEs play an important role in employment generation, contribution to GDP and serves as an income generation avenue for the poor in Ghana, access to critical resources such as credit and skilled human capital is problematic (Kessey, 2014). Therefore, the support from FNGOs in providing these resources to support their performance is important for the growth of the MSE sector in Ghana. Regarding the working capital of MSEs in Ghana, the main source comes from household savings (60%), and assistance from family and friends is 20% and 20% is also provided by Microfinance Institutions (MFIs) which includes FNGOs (Ghana Statistical Service, 2010).

## **1.2 Rationale of the Study and the Research Problem**

This study investigated the impact of MC and ET on the performance of MSEs in the Volta region which is one of the ten regions of Ghana. The study is justified on three main grounds as follows.

Firstly, the efficacy of MC in poverty reduction is still debatable (Bateman & Chang, 2012). Even though MC has been acclaimed to be one of the effective poverty reduction tools particularly in the context of developing countries, there is still a debate about its real impact and efficacy on poverty reduction (Otero, 1999; Drake & Rhyne 2002; Harper & Arora 2005). Bateman and Chang (2012:14) for instance referred to MC as 'catastrophic' and an 'illusion' which seeks to lock people and communities in a 'poverty trap'. This is because, institutions offering MC to the poor broadly known as MFIs have been criticised for charging high interest on loans and using cruel methods of loan recovery which has rendered the poor over-indebted and more vulnerable to poverty (Bateman, 2010; Rodman, 2012). These researchers who level these criticisms against MC have therefore concluded that MC is rather deepening the poverty levels of individuals rather than alleviating it. In a similar vein, Nega and Schneider (2014) argue that opportunistic political regimes use MC policies to mobilise donor resources to control the poor for their parochial political desires but claiming that it is supposed to reduce poverty. Undoubtedly, there is the need for research to provide evidence to such acclaimed impacts of MC on the poor.

Notwithstanding the above criticisms, there is a vast literature on MC and its impact on poverty reduction through MSEs almost over the past three decades (Bakhoun et al. 1989, Schneider, 1997; Aguilar, 2006; Helmes, 2006). MC remains an important strategy for reducing poverty especially in developing countries such as Ghana where access to credit is limited or unavailable (Latiffee, 2000; Deb & Suri, 2013). The above criticisms point to the fact that there is contradictory evidence in the literature about the real impact of MC on poverty reduction. Therefore, given the conflicting evidence on the impact of MC on the poor, there is a demand for a new investigation to explain how MC can be effectively used to reduce poverty. In fact,

empirical evidence emerging from several studies remains inconclusive and contradictory to the exact effects of MC on poverty through MSEs (Abiola, 2012). It is upon the basis of the above arguments that this study seeks to investigate the conditions under which MC could work better for the poor through their MSEs.

Secondly, there is a paucity of studies on how ET could be incorporated into the delivery of MC in contributing to the growth of MSEs (Newman, Schwarz, & Borgia, 2014; Rambe & Makhalemele, 2015). The provision of ET has become an important aspect of the service delivery to MSEs even in industrialised economies talk less of those located in developing country like Ghana. For instance, Ibrahim and Soufani (2002) find that in Canada, the provision of technical training to entrepreneurs has become a need in order to enhance their innovation skills in an environment which has become very competitive for small business owners. Therefore, despite the immense benefit of ET and general impact of human capital development on the sustainability of MSEs, research on the best practices of incorporating ET into the delivery of MC has been under-researched and limited in scope (Newman, Schwarz, & Borgia, 2014). The situation is not different in Ghana. Empirical research on the incorporation of ET into MC delivery and its impact on the performance of MSEs in Ghana have remained inadequate or at best inconclusive. This study, therefore, seeks to investigate the combined impact of MC and ET on the performance of MSEs.

Through this research, a framework for the combined approach of MC and ET is designed, empirically tested and proposed to FNGOs in Ghana for adoption in their bid to improve their services to MSEs for poverty reduction purposes. This study is necessary because, it emphasises the fact that, ET could be incorporated into the MC delivery process and should not be an isolated activity which is left for MSEs to

undertake (Karlan & Valdivia, 2011). Boateng et al. (2015) therefore indicated that in order to address the rising levels of poverty in Ghana, MC cannot be divorced from ET but rather both should be seen as a complementary approach to support the growth of MSEs. This research, therefore, attempts to fill this gap by studying this combined effect as well as providing an in-depth insight into how ET and MC should be conceptualised as a combined tool for a sustained poverty reduction in Ghana through MSEs. This study is justified because it emphasises the combined use of MC and ET to support MSEs through which poverty reduction could be realised.

Finally, even though FNGOs play a very important role in providing MC as a form of entrepreneurial finance to MSEs particularly in developing countries, it has received insufficient research attention. This study has, therefore, added to the scanty research available about FNGOs and their contribution to entrepreneurship development and poverty reduction in Ghana. The main argument in this study is that looking at the current poverty levels in the Volta region of Ghana, FNGOs being social welfare-oriented institutions seems to be suitable vehicles for poverty reduction through the provision of MC and ET to MSEs. However, FNGOs are less researched in Ghana in terms of their contribution to the performance of MSEs through the provision of MC and ET. Therefore, there is the need to assess the impact of FNGO services in the performance of MSEs. The study highlights the importance and contribution of FNGOs to entrepreneurship development and poverty reduction in Ghana. This study, therefore, developed a practical framework for ensuring that MC is provided alongside ET to have the desired impact on the performance of MSEs. The study also provided implications for policy and practice for making MC and ET more accessible to MSEs to achieve the desired goal of creating employment and eradicating poverty in Ghana.



### **1.3 Aims and Objectives of the Study**

Based on the literature review and with a focus on the services that FNGOs provide to MSEs in the Volta Region of Ghana, this study aims at investigating the impact of MC and ET on the performance of MSEs in the Volta Region of Ghana. Specifically, this study has the following research objectives:

#### **1.3.1 Main Research Objective**

This study investigates the impact of FNGO services on the performance of MSEs in the Volta Region of Ghana principally through the provision of MC and ET.

#### **1.3.2 Subsidiary Research Objectives**

1. To assess the impact of FNGO services on the performance of MSEs principally through the provision of MC in the Volta Region of Ghana.
2. To assess the impact of FNGO services on the performance of MSEs principally through the provision of ET in the Volta Region of Ghana.
3. To design, test and propose a framework for the delivery of MC and ET to MSEs in the Volta Region of Ghana.

### **1.4 Contribution to Academic Knowledge**

This study contributes to the entrepreneurship knowledge through the development of a conceptual model which identifies the use of MC and ET as inputs by FNGOs to have the desired impact on the performance of MSEs. The contribution to knowledge of this study is in three folds.

Firstly, the study contributes to the general entrepreneurship literature by providing an understanding to the impact of ET in the venture management process

particularly in the MSE sector where specialised human resources are lacking (Odell, 2010; Yang & Konrad, 2011; Drexler et al., 2014; Aldén & Hammarstedt, 2016). Human capital development is essential in opportunity identification, the organisation of resources and the management of a successful enterprise which has an impact on job creation and poverty reduction. The role of human capital development has not been fully researched and integrated into the delivery of microfinance services to MSEs in Ghana. Many MFIs in Ghana focus on the provision of financial capital and increasing their loan portfolios but with no or little attention to the human capital development needs of MSEs and this has led to the failure of many MSEs as well as the MFIs themselves (Ladzani & Van Vuuren, 2002).

The current realisation is that MC can only have the intended impact on the performance of MSEs if it is combined with providing ET to the MSE owner, thereby leading to a sustainable employment, profitability and sales growth (Armendáriz de Aghion & Morduch, 2005; Carsamer, 2012; Annim & Alnaa, 2013). There are few studies that have focused on the combined effect of MC and ET on the performance of MSEs such as Ejaz and Ramzan (2012), Ekpe et al. (2010), Akinbola et al. (2013), Minami (2013), and Al-Shami et al. (2014). However, these studies have not clearly defined the form and nature of the human capital development of MSEs, and more importantly, their studies were on commercialised microfinance rather than the poverty-oriented MFIs such as FNGOs. Therefore, this study is the first of its kind in the Ghanaian microfinance landscape where an empirical work of this nature is done to design, test and propose a framework for the effective integration of ET into the delivery of MC to achieve the desired impact on the performance of MSEs. This framework can be used by FNGOs and other socially oriented MFIs to improve their delivery of MC to MSEs in Ghana.

Secondly, this study highlights the impact of FNGO services in providing entrepreneurial finance for entrepreneurship development particularly in developing countries where such financial resources are limited (Allen et al. 2011; Chliova et al., 2015). Even though the FNGOs play very important role in providing entrepreneurial finance to MSEs particularly in developing countries, it has received insufficient research attention. This study has, therefore, added to the literature about FNGOs and their contribution to the entrepreneurial development and poverty reduction particularly in developing countries.

Finally, this study deepens the understanding of entrepreneurial development and the role of MSEs in the context of developing countries. MSEs are critical to the development efforts of developing countries in their attempt to create employment and increase economic growth (Agyapong, 2010; Teerakul et al., 2012; Schramm, 2013). This study, therefore, contributes to the understanding of the nature, needs, operation, and contribution of MSEs to employment generation and poverty reduction within the context of the Volta Region and Ghana as a whole.

## **1.5 Summary of the Thesis Content**

This thesis comprises nine chapters including the introduction. The general overview of the content of each chapter is provided below.

**Chapter 1** presents the general introduction and background to the study. It includes the rationale for the study, the aim of the study, research objectives, and contributions to academic knowledge.

**Chapter 2** discusses microfinance as a poverty reduction strategy. Specific issues discussed include the concept of poverty, the nature of poverty in Africa, the poverty situation and economic performance in Ghana, the regional incidence of poverty, the

background and characteristics of the Volta Region, microfinance and microcredit dichotomy, and finally microfinance as a poverty reduction strategy.

**Chapter 3** presents FNGOs as a microfinance institution. Specific issues discussed include the history and growth of MC in Ghana, the institutional logic of microfinance institutions, the regulatory regime of microfinance institutions in Ghana, and FNGOs in Ghana.

**Chapter 4** presents the theoretical framework underpinning this study. Both the Institutional and the Resource-Based View theories are discussed. The chapter discusses the various institutional actors as well as resource issues as it relates to the work of FNGOs in Ghana.

**Chapter 5** presents the conceptual framework underpinning this study. The various elements of the proposed conceptual framework in terms of both the MC and ET constructs are discussed. The eight major hypotheses for this study are herein introduced.

**Chapter 6** focuses on the research design of this study. Specific issues discussed in this chapter include the justification for the adopted research philosophy, approach and method. The adopted explanatory sequential triangulation strategy has been discussed. The various constructs used in this study, as well as the questionnaire items, are also discussed. The breakdown of the various hypothesis relating to MC and ET are presented. Both the reliability test and exploratory factor analysis are also discussed. Finally, ethical issues relating to this research are explained.

**Chapter 7** quantitatively examines the impact of MC and ET factors on the performance of MSEs in the Volta Region of Ghana through the use of a multiple regression analysis. It also reports and discusses the impact of MSE characteristics such as business age, industry category, manager's level of education and gender

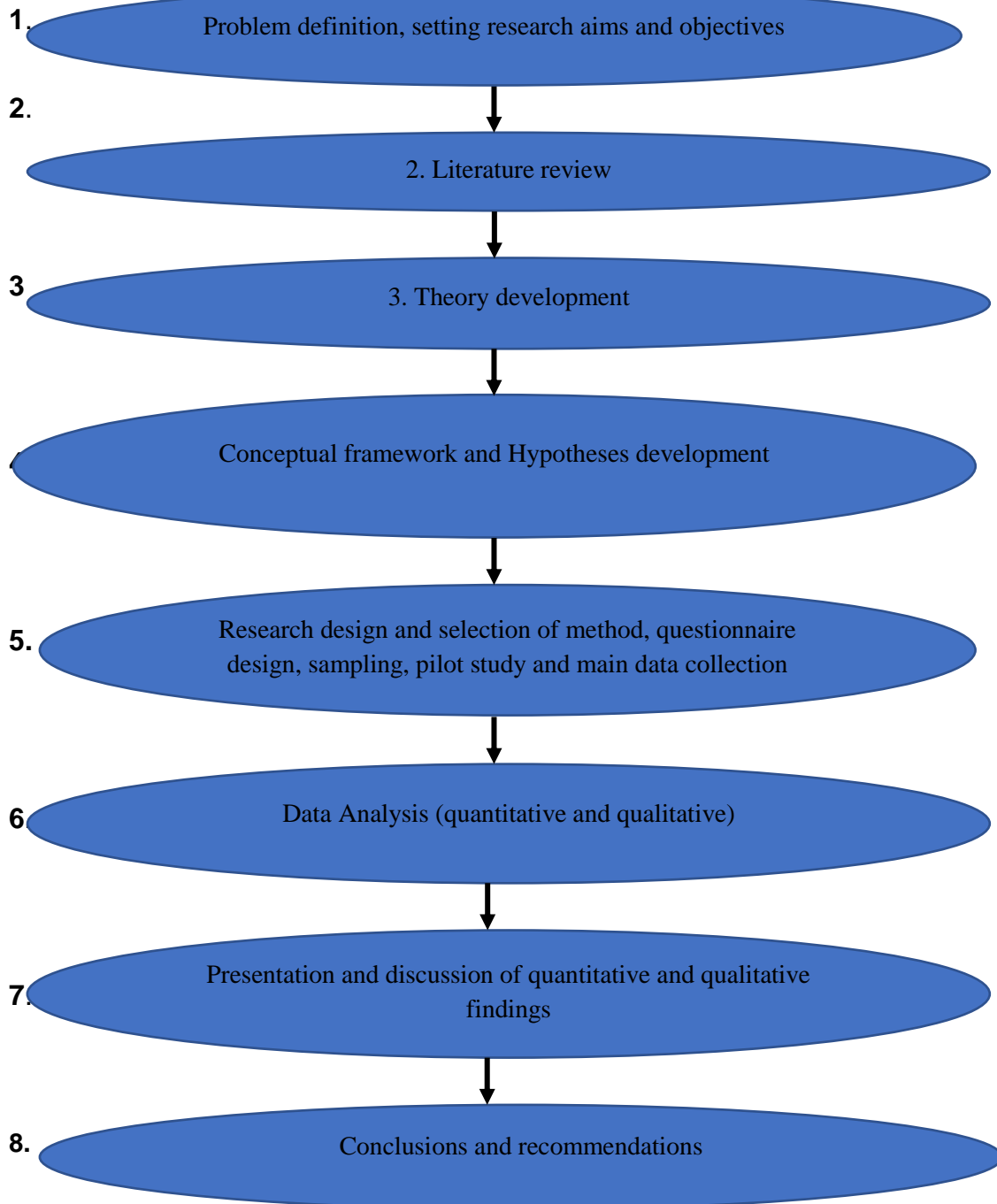
on MSE performance. The findings of the survey are discussed in relation to the existing literature. The results of the test conducted on the various hypotheses are presented and discussed.

**Chapter 8** synthesises the results of the 10 interviews conducted in the Volta Region of Ghana. The findings are discussed in relation to the existing literature. The exploratory findings also explain the implications of the evidence on the conceptual model. A discussion is also made on the triangulated process in this research in order to validate the conceptual framework used in the study.

**Chapter 9** concludes this research and highlights the major research findings, contribution to knowledge, as well as implications for policy, practice and researchers. It also discusses the limitations of the study and on this basis, recommends directions for future research.

## 1.6 The Research Process

The study sequentially went through 8 stages of the research process to the final report. The various stages are presented in Figure 1.1 below.



**Figure 1.1: The Research Process**

## CHAPTER 2: POVERTY REDUCTION THROUGH MICROFINANCE

"Microfinance recognises that poor people are remarkable reservoirs of energy and knowledge. And while the lack of financial services is a sign of poverty, today it is also understood as an untapped opportunity to create markets, bring people in from the margins and give them the tools with which to help themselves."

**Kofi Annan**, United Nations, 2005<sup>1</sup>

### 2.1 Introduction

The previous chapter highlighted FNGOs as regulated microfinance institutions in the Volta Region of Ghana that are mandated by the Central Bank of Ghana to provide MC and other related services such as ET to the poor through their MSEs. FNGOs provide such services to the poor who are usually excluded from accessing formal financial services in Ghana to engage in an entrepreneurial activity for poverty reduction purposes. Therefore, poverty reduction is the focus of FNGOs when they extend the above-mentioned services to the poor (Batttilana & Dorado, 2010). Even though poverty is not directly measured as part of this study, it is the goal of FNGOs to reduce poverty of their clients through the support extended to MSEs. The focus of this chapter therefore is in three folds. First, the chapter will present a discussion on the concept of poverty. The aim here is to provide some insight into the meaning of poverty, its multi-dimensional nature and the global poverty outlook. Second, the chapter will also present a discussion on microfinance as a poverty reduction strategy. Finally, a discussion will be done on poverty and economic performance in Ghana and Africa and the role of FNGOs in using microfinance as a poverty reduction strategy.

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<sup>1</sup> Kofi Annan is a former Secretary General of the United Nations (January 1997 to December 2006)

## **2.2 The Concept of Poverty**

In reducing poverty, it is important to understand the concept and put it into its proper perspective. Since no two poor individuals are the same, FNGOs need to understand the concept and analyse its effect on individuals before any poverty reduction intervention can be successfully executed with MC and ET. The concept of poverty has been marred by all kinds of misconceptions. Tache and Sjaastad (2010) indicate that the current meaning of poverty does not depict the reality of what is found among the poor. This misconception and confusion regarding the concept have been expressed by many researchers such as Vidyasagar (2006); Domfeh and Nyigmah (2009); Akindola (2010); Suich (2012); Khumalo (2013) and Aryeetey et al. (2013). These researchers argue that this misconception has created significant gaps as to the design and implementation of suitable poverty reduction interventions. Similarly, Akindola (2010) noted that there is also a wrong use of poverty indicators and measurement tools where policy measures have narrowed the single critical cause of poverty to the lack of income which has brought a lot of focus on economic growth as the major solution to poverty.

With the current focus on “a dollar a day” benchmark in poverty measurement, it has been argued that such measures encounter various challenges such as cross-country conversion issues and discrepancies in the use of poverty indicators (Tache & Sjaastad, 2010). However, Chartterjee et al. (2014) argue that the complexity and confusion surrounding the definition of the concept of poverty is not out of place. The researcher argues that the misconception is expected because poverty in its real nature is defined by a variety of both quantitative and qualitative issues which change over time in accordance with societal dynamism.



The reality is that poverty can be complex in its conception, causation, ramifications, diagnosis and in the design of suitable strategies to deal with it (Charterjee et al. (2014). Some of the challenges associated with the phenomenon according to Chiappero-Martinetti and Moroni (2007) is whether poverty should be understood and measured from the individual or household level, whether it should be focused on private consumptions only or in addition to public consumption, whether it should be measured only in monetary terms or with non-monetary indicators, whether poverty is transient in nature or persistent and whether poverty is absolute, relative, objective or subjective. Another misconception which is associated with poverty as a phenomenon is whether poverty should be construed as a unidimensional or multi-dimensional concept (Chiappero-Martinetti & Moroni, 2007; Tache & Sjaastad, 2010). Even though there appears some point of intersection in the above dichotomies, there currently exists a ‘large shadowy region’, ‘contamination’ and ‘confusion’ in poverty research when it comes to understanding the concept, designing various approaches and framework for analytical purposes (Chiappero-Martinetti & Moroni, 2007:360).

Poverty is a state of deprivation in social, economic, political and psychological dimensions which need to be reduced or at best eradicated (Scheidel, 2013). Poverty is also a multi-dimensional concept which manifests itself in the life of the poor with various ramifications such as voicelessness and lack of social capital which go beyond lack of income and consumption (Botchway, 2013).

Botchway (2013:85) sums up poverty as follows:

“Poverty is lack of productive resources to sustain a livelihood, lack of access to basic services such as water, health and education, food, nutrition, increased morbidity, and mortality, living in an unsafe or insecure

environment, poor or no housing, lack of participation in social, cultural, and political life, social discrimination or exclusion".

In defining the concept, Belhadj (2011) indicated that both welfarist and non-welfarist approaches are supposed to be used in its analysis. The welfarist approach refers to the use of classical microeconomics which defines poverty as a lack of income and consumption in determining the poverty line to segregate the poor from the non-poor. The non-welfarist approach considers poverty as a multidimensional measure which attempts to interrogate issues such as health, education, inequality, nutrition, housing as well as the lack of social capital.

Sen's capability approach has been used by many researchers when it comes to the definition of the concept and has even been adopted in the calculation of the United Nations Human Development Index (UNHDI) to analyse poverty in its multi-dimensional approach. By this approach, Sen defined poverty as the lack of capability to achieve a set of "functionings" (Sen, 1999b:75). Functionings refers to activities, such as eating adequate food, having suitable housing, studying, or participating in social life which is necessary to live a meaningful life. However, Scheidel (2013) argues that Sen's capability approach can only be meaningful if it considers such 'functionings' within a particular context. In other words, poverty is seen as the general lack of capability, freedoms and deprivations of income, nutrition, health, housing, lack of social capital and poor well-being within a particular geographical or economic context (Nolan & Whelan, 2009; Lund et al., 2010; Coulthard et al., 2011; Wise, 2016).

In summary, poverty refers to a condition where individuals lack various necessities of life such as food, housing, clean water, clothing, education, health and other

aspects of life such as social capital, respect and self-esteem (Vidyasagar,2006; Nolan & Whelan, 2009). For the purposes of this study as well as for critical policy and academic debate, poverty is operationally defined as comprising all kinds of human deprivations whether monetary or non-monetary which manifest itself in hunger, lack of suitable housing, poor nutrition, lack of good healthcare, poor education, voicelessness, lack of social capital and social discrimination which makes the individual vulnerable to shocks both at the individual and community levels.

Notwithstanding the above confusion in its conception, poverty has become a major global concern for both developed and developing countries alike which demand a constant search for a solution (Bruton et al.,2013). For instance, in 2003, an estimated 767 million people globally were living below the international poverty line of \$1.90 a day (World Bank, 2016)<sup>2</sup>. Also, in 2009, global statistics revealed that there were about 420 million chronically poor people in the world (Domfeh & Nyigmah,2009). Despite the above account, there has been a lot of progress in poverty reduction globally. In 2013 alone, an estimated 114 million people walked out of the poverty trap (World Bank, 2016)<sup>2</sup>.

Even though much of this progress towards global poverty reduction is seen in East Asia, the Pacific region and South Asia, poverty is still seen as endemic and has afflicted many people especially in the developing world (Botchway, 2013). Sub-Saharan Africa particularly has not seen much progress as it hosts more than half of the world's poor in 2013 (World Bank, 2016). Currently, the preoccupation of most African governments, therefore, is how to reduce the current levels of poverty which

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<sup>2</sup> As much as 71 million people were taken out of poverty in East Asia, and 37 million people from South Asia have also seen their poverty reduced.

shows in the form of malnutrition, poor housing, poor sanitation, diseases, illiteracy, child and maternal mortalities (Sackey, 2004; Chandy & Gertz, 2011; Haruna & Anawart, 2012; Khumalo, 2013).

### **2.3 The nature of the African Poverty**

Poverty levels in Africa particularly the Sub-Saharan region has been extremely high. Both urban and rural poverty has been on the increase without any clear solution to it (Lund, Agyei-Mensah, & Jørgensen, 2008). Consequently, the gap between the rich and the poor has increased without measure with various poverty trends emerging resulting in mass social deprivations (Adjasi & Osei, 2007). In fact, the poverty situation in Africa seems to be unsolvable despite several efforts from the donor communities and African Governments themselves (Lund, Agyei-Mensah, & Jørgensen, 2008). Adjasi and Osei (2007:449) therefore describe the situation as 'chronic' which demands a comprehensive approach to deal with.

Over the past three decades, most African countries have experienced some positive trends in economic growth which is very encouraging. Surprisingly, despite these positive trends, the reality remains that, the livelihoods and living conditions of most Africans do not correlate positively with the acclaimed economic gains (Atiase et al. 2017). This is the situation because; per capita GDP levels in Africa continue to lag behind that of the rest of the world (Savvides, 1995; Amar & Zghidi, 2016). The poverty crisis in Africa therefore demands a unique approach in addressing it. Out of the fifty-four African countries, not even one is out of the poverty menace. Africa is considered as one of the poorest continents in the world which has experienced a negative per capita income growth over a period of twenty years (Sachs et al., 2004; Collier, 2007).

The African poverty situation is considered to be deep and chronic and is found to be a rural phenomenon whereby an estimated 45.5% of the African population faces situations of relatively high-income inequality and severe deprivations of various kinds (Adjasi & Osei, 2007; Osei-Wusu et al., 2012). Rural poverty rates remain as high as 51% across Africa (Osei-Wusu et al., 2012). For instance, South Africa is noted to have one of the highest inequalities in the world where almost 40% of the population are chronically poor (Adato, Lund, & Mhlongo, 2007). Also, the poverty incidence in Kenya is estimated to be 49%, and the number of individuals living below the poverty line rose from 13.4 million in 1997 to 16.6 million in 2006 (Radeny, Denberg, & Schipper, 2012). In a study conducted by Sahn and Stife (2000), involving twelve African countries, it has been observed that Ghana and Senegal remain among the top with the lowest incidence of poverty. However, poverty was found to be high in Mozambique, Mali, Central African Republic, and Uganda. Uganda was also found to remain highly indebted with heavy foreign aid dependence (Hickey, 2013).

The number of people who live below the poverty line in Africa has been on the increase since 1990 and households have sunk deeper into a poverty trap with high food insecurity which has defied all solutions (Grobler, 2016). Many African countries are characterised by massive human incapacitiies, low-income, poor maternal health, high illiteracy rate, HIV/AIDS, poor nutritional levels, poor healthcare system, high population growth and even poor access to safe drinking water (Savvides, 1995). Alence (2004) argues that the single challenge facing Africa is leadership and governance crises. Thus, weak policy formulation, ineffective public administration and corruption plays a major role in Africa's weak economic development and growth of enterprises. More so, the reasons for the poor performance of the African region

goes beyond mere economic factors such as adverse world market conditions and structural economic rigidities but rather, Africa is faced with systemic issues which are behavioural in nature and this has contributed immensely to the current poverty situation in which Africa finds herself (Alence,2004).

Despite the recount of the negative stories of Africa's economic growth, it is believed that Africa could deliver significant economic growth over the next few decades if the right steps are taken in restoring economic prosperity (Amar & Zghidi, 2016). This is the most reason the development of entrepreneurship through MSEs should remain a major agenda for poverty reduction in Africa (Bruton et al. 2013). Government policies that influence market mechanisms and make them function efficiently are important in creating the conducive environment for MSEs to grow and create employment. Governments do this by removing conditions that create imperfect markets and administrative rigidities. Governments also need to create "enterprise culture" that encourages individuals to take risks in establishing ventures which would ensure employment and a continuous income for the individual (Gnyawali & Fogel, 1994:46). In supporting the venture creation process for poverty reduction in Africa, the role of FNGOs in providing MC as well as ET to MSEs remains crucial.

### **2.3.1 The Poverty Situation and Economic Performance in Ghana**

The most recent population and housing census in Ghana which was carried out in 2010 indicate that the population of Ghana was 24,658,823. This was a 30.4% increase over the year 2000 population figure which was 18,912,079. Ghana has therefore witnessed on the average a population growth rate of 2.5 % in 2010 compared to the 2.7 % in the year 2000 (Ghana Statistical Service, 2010). The

population of Ghana is made up of 38 % and 62% of both urban and rural dwellers respectively (Ghana Statistical Service, 2010; Doan & Oduro, 2012).

In the previous two decades, Ghana has reported an annual GDP growth rate of 4% to 5% which has brought some steady growth until the year 2005. The year 2006 has even seen a higher GDP growth rate of 8% which has given the country some economic hope (Molini & Paci, 2015). In fact, between 2006 and 2011, the annual economic growth rate of Ghana ranges between 4% to 15% and the lowest was recorded in 2009, while the highest was recorded in 2011. During the same period, the average annual economic growth rate was 7.8 %. Similarly, between 2010 to 2013, Ghana observed an annual average GDP growth rate of 9.7% which saw per capita income of individuals rising to GH¢1,000.00 (\$225) and has made Ghana to join a lower-middle income country category (Ghana Statistical Service, 2014). All the above performance was in line with the achievement of the Millennium Development Goals (MDG) by 2015. Comparatively, the Ghanaian economy has grown more quickly than any other country in the sub-Saharan region with her witnessing poverty reduction rate of less than half of the African average of 43% and also extreme poverty rate also been reduced from 37.6% in 1991 to 9.6% in 2012 (Molini & Paci, 2015). More importantly, the above economic achievement has reflected in various non-income dimensions of poverty. For instance, infant mortality declined from 57 deaths out of 1,000 live births in 1998 to 41 out of 1000 live births in 2014. Mortalities of children under five years of age had also declined by half (Ackah et al., 2009). Remarkably, the Ghanaian economy had met its MDG targets by halving the proportion of hungry and poor people in 2015 (Tsiboe, Zereyesus, & Osei, 2016). In addition, significant improvements were also seen in non-income related MDGs such as in gender equality, access to basic education, and access to

safe water (Yeboah et al. 2015). The above improvements were attributed to the various policies such as the National Health Insurance Scheme, the Education Capitation Grant, the School Feeding Programme, the National Youth Employment Programme, and the Livelihood Empowerment Against Poverty (LEAP) introduced by successive governments (Yeboah et al. 2015).

On the surface, it is obvious for anyone to conclude that the above economic growth should translate into better entrepreneurial opportunities, livelihood options for the citizens and economic prosperity. However, this has not been the case. Various surveys in Ghana revealed that, despite the various poverty reduction policies implemented by successive governments, poverty levels remain high (Adjasi & Osei, 2007). Poverty has become a rural phenomenon where rural areas remain underdeveloped with an acute lack of infrastructure, health facilities, education and alternative livelihood options (Adjasi & Osei, 2007). For instance, it is estimated that more than 70% of Ghanaians reside in the rural areas where many families live in impoverished conditions (Okoh & Hilson, 2011).

### **2.3.2 The Regional Incidence of Poverty in Ghana**

The reality of the above account of Ghana's economic performance and current economic predicaments is that Ghana is still grappling with chronic poverty with almost a quarter of the total population living in poverty (Ghana Statistical Service, 2014). Extreme poverty is mainly found in the rural areas where resources are less concentrated. There are ten regions in Ghana and the poverty incidence rate varies across the various regions. Only five regions (Greater Accra, Western, Central, Eastern, and Ashanti) have their rates of poverty incidence lower than the national average of 24.2 %. The other remaining five regions (Volta, Upper East, Upper West,



Northern and Brong Ahafo) have their rates higher than the national average. It is estimated that 29% of Ghanaians still live in extreme poverty with Greater-Accra region which is the least poor having 11.8% of its dwellers in poverty while the Upper East Region remains the poorest with 87.9% of its dwellers in poverty (Novignon et al. 2012; Ghana Statistical Service, 2014). More than two-thirds of the population in the Northern region, for instance, are classified as poor. Similarly, half of the total population in the Central and Eastern regions of Ghana are classified as poor (Adjasi & Osei, 2007). In the Northern region, the average rate of poverty incidence is estimated at 44% (Tsiboe, Zereyesus, & Osei, 2016).

Vulnerability to poverty has also been a major issue across the various regions in Ghana. Many individuals and households are said to be vulnerable to poverty whereby they slip into poverty on a yearly basis. Novignon et al. (2012) indicate that using an upper poverty line of GH¢ 370.89 per year, about 56% of Ghanaians are vulnerable to poverty. However, with the lower poverty line of GH¢288.47, about 49% of Ghanaians are still vulnerable to poverty. The poverty account given above indicates that the traces of poverty can be found in almost all the ten regions of Ghana. The breakdown of the Ghanaian incidence of poverty across regions is presented in Table 2.1 below.

**Table 2.1: Poverty Incidence and Gap by Region in Ghana (%), 2005/06-2012/2013**

Region	Poverty Incidence	Contribution to total poverty	Poverty gap	Contribution to total poverty gap	Poverty Incidence	Contribution to total poverty	Poverty Gap	Contribution to total poverty gap
<b>2012/2013</b>					<b>2005/2006</b>			
Western	20.9	7.9	5.7	6.8	22.9	7.3	5.4	5.0
Central	18.8	6.9	5.6	6.4	23.4	6.4	5.6	4.4
Greater-Accra	5.6	3.8	1.6	3.5	13.5	5.9	3.7	4.7
Volta	33.8	12.1	9.8	11.0	37.3	8.7	9.2	6.2
Eastern	21.7	9.3	5.8	7.8	17.8	7.5	4.2	5.2
Ashanti	14.8	12.0	3.5	9.0	24.0	12.6	6.4	9.8
Brong Ahafo	27.9	11.4	7.4	9.4	34.0	9.8	9.5	7.9
Northern	50.4	20.8	19.3	24.9	55.7	21.0	23.0	25.2
Upper East	44.4	7.4	17.2	9.0	72.9	10.9	35.3	15.3
Upper West	70.7	8.4	33.2	12.3	89.1	10.0	50.7	16.4
	24.2	100.0	7.8	100.0	31.9	100.0	11.0	100.0

**Source: Ghana Statistical Service (2014)**

According to Appiah-Kubi, Amanning-Ampomah & Ahoritor (2007), Ghana has not done much work when it comes to a multidimensional poverty analysis due to the lack of data and data integrity. This has contributed significantly to wrong policy design in reducing poverty in Ghana. Using a household data from Ghana, Dzanku (2015), argues that livelihood diversity is still a challenge for many citizens. The researcher indicates that most livelihood options in Ghana are unstable, transient and have no welfare implications for the individual. From the above discussion, it can be noted that poverty is still endemic in Ghana, and only a well-defined and targeted strategy can entirely eradicate it, or at least reduce it. Debrah (2013) therefore suggested that the high levels of poverty particularly in the rural areas where there is a lack of food, water, shelter, educational facilities, and health facilities require intervention from all stakeholders in reducing the menace. In reducing poverty in

Ghana, there is an urgent need to revamp Ghana's socio-economic infrastructural base which would improve the living conditions of the poor. This is crucial particularly for the three northern regions where poverty is chronic and endemic (Adjasi and Osei, 2007).

The chronic and persistent nature of poverty has made many researchers argue that one of the suitable solutions to the poverty menace lies in the creation of sustainable ventures by the poor which would provide employment and income as a means to reduce their vulnerability to poverty (Bruton et al. 2013). However, the venture creation process can only be successful if the poor are provided with the necessary entrepreneurial finance and its associated services such as ET (Newman, Schwarz, & Borgia, 2014). Therefore, microfinance has a significant role to play in the poverty reduction strategy of developing countries.

One of the consequences of poverty is that it becomes a vicious cycle which continuously haunts the individual for a very long time (Sakamoto et al. 2014). This vicious cycle, therefore, prevents the poor from mobilising their savings to engage in any venture creation process as an effort to reduce their poverty. Microfinance, therefore, remains an indispensable poverty reduction strategy which seeks to take the poor out of this vicious cycle of poverty through engagement in their own enterprises (Coleman, 1999; Mahmood & Rosli, 2013; Mahmood et al., 2014). Also, since FNGOs focus on poverty reduction through the provision of financial capital and other related support services, their role remains indispensable in the fight against poverty (Battilana & Dorado, 2010; Addae-Korankye, 2012). Thus, through the financing of the poor's MSEs, both employment and a consistent income is generated which makes the poor less vulnerable to poverty. The background and characteristics of the Volta Region as the study area is discussed below.

### **2.3.3 Background and Features of the Volta Region**

#### **General Background**

The Volta Region is one of the ten regions in Ghana with its administrative capital known as Ho. The region is located to the East of the Volta Lake which is an important resource for the whole of Ghana. Geographically, the region covers an area of 20,570 square kilometres making about 8.6% of the total land area of Ghana (Government of Ghana, 2018). The region shares borders with Togo by the East and the Atlantic Ocean to the South. The most recent population census recounts that the total population in the Volta Region stands at 1,635,421 with an intercensal growth rate of 1.9% (Ghana Statistical Service, 2013). Also, the population density of this region from the 2000 census stands at 79.5 persons per square meter. The age structure in the region is made up of 41% of younger generation (0-14 years) while the adult populations makes 59% of the total population in the region (Government of Ghana, 2018). The implication of the younger population as indicated above is that the region has a dependency ratio of 92 dependents to 100 working adults. In terms of the urban-rural ratio, it is estimated that 27% of the population lives in the urban areas of the region while 73% live in the rural areas (Ghana Statistical Service, 2013). The above estimate indicates that the majority of the residents in the region resides in the rural areas where poverty is endemic with various lack of physical infrastructure and basic amenities such as water, hospitals and housing (Addai & Pokimica, 2010; Badu et al.; 2013).

Administratively, the region has a decentralised political system which is made up of the Regional Coordinating Council (RCC) and the District/Municipal system. The Regional Coordinating Council comprises the Regional Minister who is politically appointed, the Deputy Regional Minister, the District Chief Executives of the various

Districts, representatives of the Regional House of Chiefs, the presiding members of the various Districts in the region and the representatives of the various decentralised Ministries, Departments and Agencies (Government of Ghana, 2018). At the District or Municipal level, the District or Municipal Chief Executives exercise a political power over the District since he/she is appointed by the Central Government. At the basic level of the decentralised structure is the Urban, Zonal and Town/Area Councils which are supported by Unit Committees through which the local communities are effectively engaged in decision making (Ghana Statistical Service, 2013).

### **Economic and Employment Characteristics**

The major occupation of the residents of the Volta Region is agriculture except for the communities along the sea and the Volta Lake such as Keta and Kpando which engages in fishing (Béné & Friend, 2011; Nunoo & Acheampong, 2014). It has been observed that males are predominantly into the construction, transport and agricultural activities while women are found in economic activities such as retailing, wholesaling and the hospitality sector (Government of Ghana, 2018). Approximately about 15.2% of the economically active individuals are employed in the retail and wholesale sector. About 10.9% of individuals in the region are also engaged in the manufacturing sector. It has been estimated that eight out of every ten adults is self-employed. Thus, only 14% and 6% of males and females respectively are formally employed (Ghana Statistical Service, 2013; Unicef, 2014). This implies that self-employment through MSEs is the dominant income generating activity for the dwellers in the Volta Region. The Volta Lake which is a major resource for the region and the country at large is also shared by other five countries namely Côte d'Ivoire, Togo, Burkina Faso, Benin and Mali (Food and Agriculture Organisation, 2005). The

Volta Lake also provides the highest contribution to electricity generation to the Whole of Ghana (Fentiman, Hall, & Bundy, 2001). The Volta region has a high inequality in terms of income, health and educational resources compared to the other nine regions (Abdulai & Hulme, 2015).

### **Cultural and Social Structure**

The people of the Volta Region represents almost every ethnic group in Ghana. Eight major ethnic groups are found in the region with the Ewes forming about 68% of the total population in the region. Other major ethnic groups include the Guan (9.2%), the Akan (8.5%), and the Gurma (6.5%) (Government of Ghana, 2018). Other smaller ethnic groups include the Ga-Dangme, the Mole Dagbon, Grusi and the Mande which constitutes 7.3% of the total population in the region (Ghana Statistical Service, 2013). The major language spoken in the region is therefore the Ewe language. The social setting in the region is classified into clans whereby each family is traced to its lineage. A lineage comprises of extended families that trace their genealogy to the same ancestor and this is usually identified with a common family name. Inheritance in the Volta Region is patrilineal whereby property is passed down to the younger generations through the “father line”. Eighteen (18) out of the twenty-five (25) Districts in the Region are known to practice this system of inheritance (Ghana Statistical Service, 2013).

### **Religious Beliefs**

Originally, the inhabitants of the Volta region practised traditional religion whereby there was a belief in gods and deities. However, with the introduction of Christianity and Islamic religion, many individuals have converted to Christianity and Islam. Whiles the Ewe, Guan and the Akan are mostly Christians, the majority of the

Hausa, Kotokoli, Kokomba and the Nanumba who find themselves in the Volta North are Moslems (Ghana Statistical Service, 2013). Thus, out of the 1,635,421 population in the region, 67.2% are Christians, 21.8 practice traditional religion and 5.1% are Moslems.

### **Literacy and School Enrolment**

The English language is the official language used in this region. However, other ethnic languages exist which are used in the day to day activities of the residents. The 2000 census indicates that about 57.9% of the adult population is classified as literate in English whiles the remaining percentage are only literate in the local Ghanaian language (Natia, 2015). The adult literacy rate is estimated at 58.3% with the ability to read and write in both English and an ethnic language. The male literacy rate of 69.7% is higher than the national average of 66.4% whiles that of the females is 49.1% which is the same as the national average for females (49.8%) (Ghana Statistical Service, 2013). Primary school enrolment is 59% for males and 61.6% for females which is slightly lower than the national average of 60.3% (Ghana Statistical Service, 2010). The senior secondary school enrolment in the region is 9.8% for males and 7.9% for females. Even though school enrolment is perceived to be high in the region, satisfaction with education is perceived to be low at 19.0% satisfaction rate for primary education and 21.0% for secondary education (Senadza, 2012; Ghana Statistical Service, 2013). Looking at the above account of Ghana's poverty situation, and that of the Volta Region, microfinance could be the solution by financially empowering the poor to engage in their own income generating activity which will ensure access to a sustainable income for the individual and his household (Dzansi & Atiase, 2014; Salia et al, 2017). However, the term

microfinance and MC can be confusing in its use by both researchers and practitioners. In this study, MC is used to refer to the issuance of only microloans without any additional services to MSEs as opposed to microfinance which involves the provision of extended financial services to the poor. These two terms are further discussed below.

## **2.4 Microfinance and Microcredit Dichotomy**

In the poverty literature, the term microfinance and MC are used interchangeably. However, it is important to distinguish microfinance from MC. Microfinance is often defined as the delivery of a broad range of financial and non-financial services to the poor and low-income clients mainly as financial capital into their MSEs (Copestake, 2007; Yeboah, 2010; Dzansi & Atiase, 2014; Mahmood et al. 2014). According to Trócaire (2005), this range of financial services includes MC, micro insurance, money transfer services as well as client savings. In practice, however, microfinance refers to the issuance of loans and other added services to the poor from MFIs (Koveos & Randhawa, 2004; Belwal et al., 2012). These institutions use either individual or group lending methodologies to reach out to the poor in their designated catchment areas. For the purposes of this study, microfinance refers to a debt financing strategy where MSEs are provided with MC and other related services such as ET to create employment as a means to poverty reduction.

On the other hand, MC refers to the issuance of only microloans to the poor to invest in their businesses. According to Anderson et.al.(2002), MC has become the main development strategy for developing countries in terms of supporting their income generating activities. Evidence suggests that MC is an effective tool in assisting the poor especially in developing countries such as Ghana to engage in an income-



generating activity whereby the poor are able to repay to the MFI successfully (Morduch, 2000; Afrane & Adjei-Poku, 2013). In most cases, MFIs issue MC to the poor with or without any collateral and in some other cases, the use of collateral substitutes such as pre-loan savings, group guarantee and the pledge of stocks is accepted to access these loans (Yeboah, 2010; Hinson & Ackah-Baido, 2011). However, Armendáriz de Aghion and Morduch (2005) argues that one major change that has happened in the financing of MSEs is the paradigm shift from MC to microfinance which enhances the efforts of MFIs to provide a broad range of both financial and non-financial services to the poor which addresses their needs in totality. In this study, the focus will be on MC as referring to only the issuance of microloans without any additional services to MSEs. In cases where microfinance is used in this study, it refers to both MC and ET.

In summary, microfinance is both the financial and non-financial intervention that employs certain innovative methodologies such as MC, micro savings and ET to the poor and the poorest especially in developing countries that do not have access to formal financial services to engage in an income-generating activity aimed at poverty reduction. However, MC is delivered to the poor as a microloan without any additional services as indicated above. The next section discusses how microfinance can be used as a poverty reduction strategy.

## **2.5 Microfinance as a Poverty Reduction Strategy**

Several centuries ago, Schumpeter (1911) argued that financial development in a country plays a major role in economic development through the effective allocation of financial resources (Becker & Knudsen, 2002). In the same vein, Goldsmith (1969) also emphasised the connection between the financial structure of a country

and its economic growth (Jalilian & Kirkpatrick, 2002). Therefore, improving access to financial resources in a country for the poor to pursue their entrepreneurial goals enhances the productivity of the poor as well as providing a sustainable livelihood for them. By so doing, many individuals will be lifted out of poverty (Uddin et al. 2014).

Since the 1970s, microfinance has been used as a poverty reduction strategy by way of providing access to MC and other related financial services for the poor to engage in entrepreneurial activities (Rajbanshi et al., 2015; Samer et al., 2015). In the extant poverty literature, evidence suggests that microfinance can lift the poor out of poverty through the provision of the necessary financial capital to engage in an entrepreneurial activity (Hartarska & Nadolnyak, 2007; Helmes, 2006; Khavul, 2010).

In developing countries such as Ghana, the poor are usually excluded from participating in the formal financial systems and this has affected the level of contribution which they can offer to the economy (Schneider, 1997; Latiffee, 2000; Deb & Suri, 2013). Lash (2008) offered some reasons for their exclusion. The researcher indicates that the poor are excluded from the formal financial systems in developing countries because of the high loan default rate associated with the poor, lack of collateral to guarantee loans, asymmetric information challenges as well as general moral hazard about the poor by the commercial banks. However, Brau and Woller (2004), opine that financial exclusion is not only related to developing countries but rather it traces itself even into developed countries where the poor are excluded from accessing credit from the formal financial system. Helmes (2006) also indicates that financial exclusion whether partial or total from formal financial institutions has contributed to making the poor incapable of dealing with personal

and household shocks. This exclusion has therefore contributed largely to the perpetuation of poverty in developing countries. Because of this financial exclusion of the poor, microfinance emerged to reduce the financial access gap which exists between the rich and the poor particularly in developing countries (Johnson and Rogaly, 1997; Copestake et.al, 2005; Murisa & Chikweche, 2013).

In Ghana, microfinance has been very instrumental in the poverty reduction efforts of successive governments and in the promotion of entrepreneurship among the poor and the poorest. The 2000 Population and Housing Census in Ghana recounted that about 80% of the working population is found in the private informal sector and this category of Ghanaians are characterised as lacking access to credit and other financial services. This lack of access to credit has been noted as the main challenge preventing the informal sector from active participation in the Ghanaian economy (Bank of Ghana, 2007). Also, the report of the Ghana Living Standards Survey round five (GLSS5) indicates that about 86% of the total population of Ghanaians live below the poverty line and resides mainly in rural areas where they engage in informal activities such as petty trading, farming, animal husbandry and crafts (Annim & Alnaa, 2013). The Bank of Ghana (2007) also recounted that MFIs in Ghana have advanced MC to these informal sector workers to engage in economic activities such as petty trading, crop farming, dairy farming, poultry farming, weaving and crafts as well as general trading.

Through microfinance, the poor are able to have access to credit and other services which enables them to build assets through their businesses, increase and improve their household consumption, and finally leads to the increment in the earning capacity of the poor which has a tremendous impact on their quality of life(Zeller &

Sharma, 2000; Deb & Suri, 2013; Akotey & Adjasi, 2016). Lash (2008) argues that the promotion of financial inclusiveness in a country can reduce poverty through the reduction of income inequality among individuals. For example, Zeller and Sharma (2000) and Akpalua et al. (2012) have all indicated that MC can also help improve general food security in a country by offering small loans to farmers to engage in agricultural production which could provide enough food for individuals and households. Again, Akpalua et.al (2012) indicates that MC can financially empower women who are more vulnerable to poverty in most developing countries. Thus, women bear the task of providing basic needs related to the household's health, nutrition and education. Therefore, to reduce poverty, the current gap which exists between the rich and the poor in Ghana needs to be closed or at least reduced through the provision of microfinance to the poor to engage in income-generating activities. Matin et al. (2002) therefore indicated that in order for MFIs to have the maximum impact on poverty reduction through their services, they would have to focus on making those services beneficial to the poor by concentrating on the quality, range and cost of services provided.

## **2.6 Chapter Conclusion**

The concept of poverty needs to be well understood and well-defined to target and identify the poor for an effective design of poverty reduction strategies. This is the only way that poverty reduction efforts could be realised. Defining the concept appropriately has important implications and ramifications for policy formulation and implementation for the treatment of those categorised as poor (Akindola, 2010). It is also important to state that poverty is a multidimensional concept which takes into consideration both income and non-income related factors without which the concept becomes vague and difficult to deal with (Nolan & Whelan, 2009). More so,

eliminating poverty is not just an issue of raising an awareness of the phenomenon, but rather it is an action which requires a rigorous approach deployed in a multidimensional way.

It has also been noted in the poverty literature that, various institutional arrangements and services could be used to support the venture creation of the poor as a solution to poverty. For example, making access to financial resources for the development of entrepreneurial opportunities remains crucial. However, in any venture creation process of the poor, access to financial capital and human capital development is essential (Newman, Schwarz, & Borgia, 2014). This is the reason the work of FNGOs in the Volta Region becomes important in the fight against the poverty menace. The provision of a sustainable and pro-poor MC programme coupled with the right ET is one of the surest ways of creating employment through MSEs in the region. This is because such employment opportunities can have a lasting impact on poverty reduction. The poverty situation in the Volta Region of Ghana, therefore, demands adequate access to both financial and human capital development resources and thus, the services of FNGOs remain crucial for the growth of MSEs and hence poverty reduction. The next chapter, therefore, discusses the nature, activities, the institutional logic and the regulation of FNGOs in Ghana.

## CHAPTER 3: FNGOS AND THE DELIVERY OF MICROFINANCE IN GHANA

“When we designed microcredit, the purpose was to help people get out of poverty, but some people moved away from that motivation. If others have tried to imitate it in a flawed way, it does not mean the whole idea of non-collateralised lending to the poorest people is flawed. The challenge is to get it right.”

**Muhammad Yunus**, New York Times, 2013<sup>3</sup>

### 3.1 Introduction

The previous chapter discussed the concept of poverty and the poverty situation in Ghana and Africa as a whole. The chapter also emphasised the fact that microfinance can reduce poverty through the financial support provided by FNGOs in terms of MC and ET to MSEs.

Successive Ghanaian governments since independence in 1957 have tried to make entrepreneurial finance accessible to MSEs for job creation and poverty reduction purposes. However, current observations show that access to financial capital remains difficult to MSEs in Ghana while the problem of poverty remains incessantly unresolved (Doan & Oduro, 2012). Even though there has been some improvement in the provision of financial services to MSEs in Ghana, access to financial capital remains a drawback to MSE growth and expansion and this has necessitated calls for an inclusive financial system that considers the needs of MSEs in totality. As noted in the previous chapter, MSEs in Ghana are excluded from the formal financial services due to their high failure rate amongst other reasons such as the lack of the required collateral to support loan applications with commercial banks (Lash, 2008; Haag and Henschel, 2016). Due to the above reasons and the general moral hazard

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<sup>3</sup> Muhammad Yunus is the founder of the Grameen Bank in Bangladesh who first started microcredit in the village of Jobra in 1976.

of the MSE sector in Ghana, MC from FNGOs has become a dominant source of funding for MSEs as a support to generate employment and contribute meaningfully to the Ghanaian economy. The purpose of this current chapter is in two folds. First, this chapter will provide a discussion on the historical perspective of the growth of MC in Ghana. To understand the current delivery of MC by FNGOs, it is important to briefly discuss the historical perspective of MC delivery in Ghana. Secondly, the chapter will present a discussion on the general institutional logic of MFIs and the delivery of microfinance by FNGOs in Ghana. The aim here is to situate FNGOs within a specific institutional logic to underpin their operational activities and focus on providing MC and ET to MSEs in Ghana.

### **3.2 The History and Growth of MC in Ghana**

MC has become one of the essential economic development tools of all Ghanaian Governments across different regimes as an attempt to reduce poverty. Even though MC has existed in various forms for many years in Ghana, active government implementation of this strategy to deal with poverty started in 1990 (Addae-Korankye, 2012). In Ghana, MC clients are predominantly women in both rural and urban centres who are engaged in several types of economic activities such as farming, food processing, petty trading, service provision and street vending (Adjei, 2010; Addae-Korankye, 2012). Various MC activities can therefore be observed throughout the rural and urban areas of the ten regions of Ghana. These various MC activities are provided either by a dedicated Government of Ghana (GOG) program, donor assisted programmes, MFIs (such as FNGOs, Rural banks, Savings and Loans Companies, Credit Unions etc), District Assembly initiatives, Community-based initiatives (CBIs), or through Church-based programmes (Addae-Korankye, 2012; Peprah, 2012). The delivery of MC in Ghana has gone through at least three

main stages namely the provision of informal credit, government-sponsored MC programmes and the private sector MC programmes which includes FNGOs. These stages are discussed below.

### **3.2.1 The Informal Credit System in Ghana**

Informal credit remains one of the dominant aspects of Ghana's financial system which has been in existence for a very long time even before the promulgation of formal laws to regulate financial services in Ghana. One of the oldest informal credit systems known as '*Susu*' meaning 'small collections' is dominant in almost every community in Ghana (Steel & Aryeetey, 1994). Members of a *Susu* group usually have weekly meetings of members to contribute a set sum of amount into a common 'pot' from which each of them can borrow on a rotational basis to support their various MSEs or in an emergency where cash is needed to reduce vulnerability to poverty (Adusei & Appiah, 2012).

Credit Unions also form part of the financial intermediation system in Ghana. Evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by the Canadian Catholic missionaries (Adjei, 2010). This suggests that informal credit systems such as Credit Unions and Rotating Savings and Credit Associations (ROSCAs) have existed for a very long time in Ghana. The main objective of a Credit Union is to encourage savings among members who are mostly farmers, traders, food processors and non-agricultural workers. A Credit Union enables members to save money over a period which enables them to have access to MC to undertake income-generating activities and to meet other household needs (Peprah, 2012). Currently, the law governing Credit Unions in Ghana is the Non-Bank Financial Institutions Law (NBFL) of 1983. Credit Unions in Ghana are also



governed by the Credit Union bye-laws which are formulated by the Credit Unions Association (CUA) of Ghana. CUA is the Apex body mandated by the Central Bank of Ghana to regulate and supervise the activities of all Credit Unions in Ghana (Yeboah, 2010). Credit Unions are also required to operate under the cooperative law as well as the Credit Union Supervisory Board, which is a government appointed agency (Bank of Ghana, 2007; Peprah, 2012).

There existed also cooperatives, especially among cocoa farmers in the 1920s where many of them are provided with informal credit to support their farm activities (Bank of Ghana, 2007; Egyir, 2010). In 1946, the Gold Coast Cooperative Bank was formed through the various cocoa cooperative societies. The purpose is to serve mainly farmers with savings facilities and short-term credit for their farming activities. Credit was mainly obtained seasonally for production, storage as well as commodity processing. Repayments were usually made from seasonal sales to obtain another credit for the subsequent season.

### **3.2.2 Government- Sponsored Credit Systems in Ghana**

From the 1950s, successive governments in Ghana introduced several government-financed loan schemes with the aim of making financial resources available to MSEs for local business development. Some of these schemes include the District Assembly Common Fund (DACF), which was instituted in 1992 to support poverty reduction efforts at the district levels mainly through women groups (Boateng, 2015).

In the 1970S, the government of Ghana after drawing on the experiences of the rural banking concept in both the Philippines and the Netherlands introduced the same in Ghana. The rural banking system has the objective of mobilising rural savings; offering credit and other banking services to rural people who are engaged in all

kinds of economic activities (Owusu-Frimpong, 2008; Boateng, 2015). A Rural Bank is a community owned and managed bank that is mandated to operate within a catchment area of 25 kilometres from its headquarters. The first rural bank was formed in July 1976. With the formation of many rural and community banks (RCBs), an apex body known as the Association of Rural Banks (ARB) was registered to represent and seek the collective interest of all RCBs in Ghana. The ARB is also to provide technical support to these RCBs while the Central Bank provides the direct regulation and supervision. Currently, RCBs can be found in almost every district in Ghana, providing various financial services ranging from savings, MC as well as money transfer services to mainly rural folks (Owusu-Frimpong, 2008). In terms of ownership structure, no individual can own more than 30% of the total shares of a rural bank and in terms of a corporate shareholder, it shall not exceed 50%. The minimum capitalisation for rural banks currently is US \$50,000 or GH¢ 150,000 (Bank of Ghana, 2015). The requirement for capital reserves in 2002 was 62% and this was aimed at enabling RCBs to improve upon their financial performance. However, this has been brought to 8% primary reserve and 5% deposit with the ARB Apex Bank and a 30% secondary reserve with the Central Bank (Bank of Ghana, 2015).

With the introduction of the Structural Adjustment Programme (SAP) from the International Monetary Fund in 1983, an agenda was set to reform key sectors of the Ghanaian economy including the establishment of new financial institutions that would make the economy more competitive globally. At this time, institutions such as the Women's World Banking and Citi Savings and Loans were established to provide credit to most enterprises in their bid to create jobs (Bunyaminu & Bashiru, 2013).

The Microfinance and Small Loans Centre was also introduced by the government in 2005 to intervene in the MSE sector in enhancing access to credit by community groups and individuals for the purposes of business expansion and job creation. The focus of this initiative according to Bunyaminu and Bashiru (2013) is to empower women, the physically challenged and the youth in providing MC to create or expand their microenterprises. Unfortunately, these government interventions failed to revamp the informal sector since it encountered several challenges including partisan politicisation of the fund (Boateng, 2015).

### **3.2.3 The Private Sector Credit Reforms in Ghana**

The financial sector reforms in Ghana, which started with the promulgation of the Provisional National Defense Council (PNDC) Law 328 in 1993, saw the entrance of many Non-bank Financial Institutions (NBFI) of different categories (Sanda & Sraha, 2011). Some of these NBFIs include savings and loans companies, discount houses, leasing and hire-purchase companies, mortgage finance companies, building societies, acceptance houses and FNGOs into the Ghanaian financial landscape. The purpose of this law is to engage the private sector in the provision of various financial services to poor individuals who lack access to formal financial services to engage in enterprise formation to create jobs (Annim & Alnaa, 2013). Various challenges were encountered by MFIs with the introduction of the new reforms. Most MFIs were unable to meet capital requirements as well as other resource challenges in order to meet new operating guidelines (Sanda & Sraha, 2011).

Sanda and Sraha (2011) noted that, in addition to the PNDC law 328, the Non-Bank Financial Institutions Business Rules of the Bank of Ghana (BOG) was introduced in June 2000 to stipulate the various regulations regarding the management of the non-

bank financial sector in Ghana. In this regulation, details such as capital and solvency requirements, portfolio management norms, corporate governance and deposit-taking were clarified. This law also has a provision for the incorporation of businesses, issuing of operating licenses, minimum capital requirement, suspension and revocation of licenses (Sanda & Sraha, 2011). However, various socially-oriented MFIs such as FNGOs were unable to meet capital requirements due to their inability to raise enough equity.

### **3.3 The Regulatory Regime of Microfinance Institutions in Ghana**

The microfinance sector in Ghana which includes FNGOs and other types of organisations providing MC to the poor are regulated by the Central Bank of Ghana. Three main sources of regulation in Ghana namely the Non-Bank Financial Institutions Act, 2008 (Act 744), the Bank of Ghana Act, 2002 (Act 612) and the Banking Act, 2004 (Act 673) provides the regulatory framework for all MFIs including FNGOs operating in Ghana (Bank of Ghana, 2007; Bank of Ghana, 2015).

Since August 2011, all new microfinance companies are supposed to be licensed to begin operations and existing institutions, which were already in operations before the introduction of regulation into the microfinance sector, were allowed to regularise by meeting the various conditions and capital requirements set out by the Central Bank (Peprah, 2012). The new regulatory guidelines in Ghana has classified MFIs into four categories namely Tiers 1, 2, 3 and 4. Tier 1 MFIs include Rural and Community Banks and Savings and Loans Companies. These institutions are typical formal financial institutions and are governed by the Banking Act of 2004. Tier 2 MFIs include Susu companies and other financial service providers, including deposit-taking FNGOs and Credit Unions. Tier 3 activities are those undertaken by

money lenders and non-deposit taking FNGOs. Tier 4 institutions consist of Susu collectors and individual money lenders (Peprah, 2012; Bank of Ghana, 2015). Boateng (2015) argue that even though Ghana's microfinance system has grown rapidly over the years, the sector has been saddled with a lot of challenges such as high operational cost, weak support for institutional and human capacity building, poor communication infrastructure for MFIs with multiple branches, and a high loan default rate.

### **3.4 FNGOs**

Over the years, the Ghanaian MSE sector has faced challenges regarding access to affordable credit to serve as a working capital into their operation and this has contributed largely to the poor development of the sector as a whole (Allen, Otchere, & Senbet, 2011). Even though successive Ghanaian governments have endeavoured to resolve this financial challenge, issues of the suitability of financial products, proximity to financial services, timeliness and issues regarding the general cost of credit in Ghana remains a barrier to the development of the sector (Egyir, 2010). Therefore, the failure of formal financial institutions to resolve the above challenges and reach out to MSEs has inspired numerous FNGOs with a poverty reduction agenda to provide MC and other related services to MSEs as a support in exploring various entrepreneurial opportunities (Shahriar et al., 2016). Therefore, FNGOs provide both financial and non-financial services to support the poor in an integrated manner where MC is blended with other services such as ET, health education and numeracy skills (Shetty, 2008). Usually, FNGOs use group lending methodologies with low cost and accessible credit which usually target women borrowers (Coleman, 1999; Terjesen, 2007; Battilana & Dorado, 2010). As indicated earlier, FNGOs have a purely social mission in providing financial services to the

poor to reduce their poverty as well as their vulnerability to it. Most FNGOs traditionally started as donor dependent and unregulated institutions with a strong poverty reduction mission (Batttilana & Dorado, 2010; Xiang, Jia, & Huang, 2014). FNGOs if compared to their commercial microfinance counterparts are currently seen as more dynamic in the delivery of financial services in a regulated environment through their design of suitable products and services to the poor (Batttilana & Dorado, 2010).

According to Mersland and Strøm (2008), FNGOs focus on the depth of poverty reduction (i.e. client's poverty level) rather than the breadth of poverty (i.e. the number of clients served). FNGOs are known to be the major poverty focussed institution delivering microfinance in developing countries. Research evidence shows that 45% of microfinance institutions operating in developing countries are FNGOs serving 51% of all microfinance clients and consisting of 73% of female borrowers (Xiang, Jia, & Huang, 2014). Thus, the impact of FNGO services in poverty reduction through the provision of MC has been noted to contribute largely to poverty reduction in developing countries (Rajendran & Raya, 2011). FNGOs are usually voluntary in nature and are committed to the upliftment of the poor with flexible MC products with other value added services such as savings, ET and health education (Rajendran & Raya, 2011). They are flexible in their operation, independent of direct government control, quick in decision making and are driven by strong social values (Rajendran & Raya, 2011). Usually, the focus of FNGOs is on women who are willing to engage in some form of economic activity. According to Morais and Ahmad (2011), FNGOs are also effective in extending MC to the poor in conflict-affected areas such as in Kenya and Zambia where refugees are encouraged to engage in an entrepreneurial activity to earn a livelihood for themselves and their households. Khavul (2010),

therefore, indicated that since FNGOs are non-profit oriented, they are likely to be more sustainable in their drive towards poverty reduction than the commercially-oriented microfinance institutions.

As noted in an earlier discussion, FNGOs in Ghana belong to the private sector providers of microfinance in Ghana and are licensed by the Central Bank of Ghana to provide microfinance services to both the rural and urban poor (Bank of Ghana, 2015). FNGOs are private trust entities that are usually limited by guarantee. Until recently they were not subject to any external regulation. In addition to the Central Bank regulation as indicated above, FNGOs are supposed to belong to an umbrella body known as the Association of Financial Non-Governmental Organisation (ASSFIN) which provides guidance and advocacy duties on behalf of FNGOs (Bank of Ghana, 2015).

More so, FNGOs are classified either as Tier 2 (deposit taking) or Tier 3 (non-deposit taking) microfinance institution who are mandated to provide financial services to the poor who are usually excluded from accessing formal financial services in Ghana (Bank of Ghana, 2015; Peprah, 2012). This classification is done by the Central Bank of Ghana based on two main criteria (a) minimum paid-up capital (owners' contribution) (b) type of activity to undertake. Both Tiers 2 and 3 FNGOs are required to have not less than GH¢ 300,000.00 or \$66,500.00 as their minimum paid-up capital to be licensed by the Central Bank of Ghana to provide financial services to MSEs. However, one distinction among the two types of FNGO is that, while Tier 2 FNGOs can receive deposits from clients, Tier 3 FNGOs are restricted from taking any form of deposit (savings) from clients (Bank of Ghana, 2015). The licensing regulation also stipulates that FNGOs shall keep 75% of their minimum capital in liquid form to support their MC operations. This implies that only 25% of the

minimum capital shall be spent on property, plants and equipment. By their mode of operation, FNGOs are not supposed to adopt a commercial approach and neither are they supposed to declare a profit (Bank of Ghana, 2015). The impact of FNGOs on MSEs and its attendant effect on poverty reduction cannot be underemphasized. For instance, in a meta-analysis of 90 studies conducted to date, it has been revealed that FNGOs have had a positive impact on key development outcomes especially in supporting the poor and the poorest to engage in income generating activities (Chliova, et al., 2015). FNGOs also provide MSEs with savings products, insurance as well as other needed financial services (Ejaz & Ramzan, 2012; Murisa & Chikweche, 2013). Similarly, FNGOs also support MSEs in the development of social capital which is needed for the acquisition of various entrepreneurial resources (Davidsson & Honig, 2003). The social capital of MSEs is usually developed through the group lending methodology used by FNGOs. According to Milanova et al. (2015), these personal networks developed through FNGO lending schemes enhances information sharing, support, entrepreneurial activities and general venture performance. The Bank of Ghana (2015) stipulates the following operating rules and guidelines for FNGOs:

- i. All FNGOs in Ghana shall be registered as companies limited by guarantee
- ii. All FNGOs in Ghana shall maintain a minimum paid-up capital of GH¢300,000
- iii. All FNGOs shall maintain a gearing ratio not exceeding eight (8) times of their capital.
- iv. All FNGOs in Ghana shall be eligible to establish branches subject to prior approval of the Bank of Ghana and compliance with any other conditions determined by the Bank of Ghana.



- v. All FNGOs in Ghana shall not grant unsecured loans to MSEs exceeding 10% of the paid-up capital of the financial institution.
- vi. All FNGOs in Ghana are permitted to raise funds from high net worth individuals and other wholesale sources.
- vii. All FNGOs in Ghana shall also undertake any other activity or services subject to prior written authorisation by the Bank of Ghana.
- viii. All deposits received by deposit-taking FNGOs shall be kept in an escrow account with a commercial bank.

### **3.4.1 Functions of FNGOs**

The nature of support provided by FNGOs to MSEs is in two folds. Firstly, FNGOs provide MC usually as a working capital to MSEs through the adoption of mainly group lending methods (Moseley & Rock, 2004). Secondly, FNGOs provide ET to microcredit clients whereby various entrepreneurial and managerial skills are impacted. The main purpose of this is to develop the human capital base of the MSE owners to successfully manage their enterprises. These two activities are discussed further below.

#### **Provision of MC to MSEs**

Microcredit from FNGOs has become one of the dominant sources of funding for MSEs in Ghana without which it would be difficult for MSEs to have the needed financial capital to support their entrepreneurial activities (Giné´ & Townsend, 2004; Ahlin & Jiang, 2008; Guha & Chowdhury, 2013; Baland et al., 2013). Usually, microcredit received from FNGOs is used for business expansion purposes since MFIs most often than not are reluctant to finance start-up businesses (Kuzilwa, 2005). Bastiéa et al. (2016) indicate that MSEs' access to microcredit promotes their

growth in employment, sales and profitability and influences their various business decisions. Therefore, FNGOs in their attempt to reduce poverty through MSEs provide MC to the poor usually as a working capital at relatively lower interest rates (Allison et al., 2015).

In promoting venture creation for poverty reduction purposes, it has therefore been argued that financial resources such as those provided by FNGOs are important in providing the necessary capital to serve as an input into the poor's business (Karlan & Zinman, 2012; Allison et al., 2013). MC by FNGOs with other support systems promotes entrepreneurial drive among the poor by removing credit constraints that usually prevents them from engaging in an income generating activity (Gine´ & Townsend, 2004; Ghosh & Tassel, 2013; Falco & Haywood, 2016). Ahlin and Jiang (2008) also pointed out that the availability of affordable MC positively influences the entrepreneurial behaviour of the poor, and ultimately their financial well-being. It is important to clarify that; there are other microfinance programmes which do not aim at the venture creation of the poor. However, FNGOs aim at directing MC into the poor's venture creation and management process for poverty reduction purposes. Permanyer (2014) has therefore contended that MC certainly has an impact on MSEs regarding venture survival, growth and profitability as well as the financial well-being of the MSE owner.

Through the solidarity group lending schemes where MC clients are supposed to be part of a group to access loans, FNGOs are able to reach out to many poor individuals at the same time at a lower cost of operation (Trócaire, 2005). Chahine and Tannir (2010) however raised concerns about the sustainability of the operations of FNGOs in the face of limited funding, subsidies and increased competition. This has become a concern because FNGOs are supposed to be strictly abiding by their

social mission of poverty reduction through effective outreach to MSEs. This is because as Addae-Korankye (2012) argue, FNGOs that wish to deepen their impact as far as poverty reduction is concerned need to provide services that are essential, accessible and useful to MSEs. This implies that the needs of the poor are supposed to be met in the delivery of financial services by FNGOs. It is expected that a well-designed MC programme should be able to change the lives of the poor at the individual, household, enterprise and community levels (Mayoux, 2001; Harper & Arora, 2005).

In Ghana, FNGOs are mainly found in rural communities where access to financial services is limited or unavailable. Focusing mainly on women groups, FNGOs also support village and community groups to undertake community enterprise projects which are aimed at poverty reduction (Kotir & Obeng-Odoom, 2009). However, the irony is that MSEs' access to microcredit is also often influenced by various factors such as the cost of credit, flexibility of repayment methods, loan amount adequacy issues and other accessibility challenges (Abor & Quartey, 2010; Fatoki, 2011; Atiase et al. 2017). Typically, MC clients are low-income individuals that do not have access to formal financial services. They are mostly self-employed, home-based entrepreneurs, farmers, and petty traders. However, MC clients in urban areas includes service providers, petty traders, and artisans (Permanyer, 2014). According to Helmes (2006), MC clients can be classified as the vulnerable non-poor, the moderately poor and the extremely poor. These groups of individuals are usually found around the poverty line of a country (Helmes, 2006).

Helmes (2006), therefore, suggests that MC programmes that have a clear agenda and strategy of targeting the poor must have most of their clients coming from the extremely poor category. Mahmood et al (2014) also indicate that MC could only be

seen as an effective tool for poverty reduction if the poorest borrowers are targeted and served first. This implies that the MFI needs criteria or strategy which can be used consistently in identifying and reaching out to the poor and excluding the non-poor. Usually, both consumption and income levels are used in identifying the poor for the purposes of extending a microfinance service (Nallari & Griffith, 2011; Gunther & Maier, 2014). Thus, a person is classified as poor if his consumption or income level in a day is below his nationally defined poverty line (Aguilar, 2006). More so, in defining the poor, international standard poverty measurements such as that of the World Bank's poverty line is useful in measuring the poor (Greely, 2005; Helmes, 2006; Celidoni, 2015). Most MC clients, therefore, fall around or just below the international poverty line of \$1 a day for the poorest clients or \$2 for the poor clients (Helms, 2006).

MC programmes by FNGOs are provided under various institutional arrangements (Ksoll et al., 2016). Most MC is directed for a specific purpose in the poor's business, either for a start-up of a new business, working capital for an on-going business, to acquire specific assets for the business or in some cases to pay off business debts. It is imperative that MC is used in the venture creation and management process, otherwise, it is not likely to yield the right benefit as far as poverty reduction is concerned (Annim & Alnaa, 2013; Armendáriz de Aghion & Morduch, 2005; Carsamer, 2012). Kent and Dacin (2013) therefore argue that without adopting an entrepreneurial approach to the delivery and use of MC, it is unlikely to deliver on the poverty reduction mission. One of the aspects of microfinance services by FNGOs is the provision of ET which is aimed at developing the managerial and cognitive skills of the MSE owner. ET is provided because it is assumed that it would have a significant impact on the MSE performance in generating a consistent income for the

MSE owner, hence poverty reduction. ET as a function of FNGOs is briefly discussed below.

### **Human Capital Development Services through ET**

FNGOs are not only concerned with advancing MC to the poor to engage in entrepreneurial activities but also, they are interested in providing other non-financial services such as ET to their clients (Habib & Jubb, 2013). FNGOs are therefore noted for using cost-effective and innovative ways to reduce poverty through their various non-financial services to support their MC activities (Armendáriz de Aghion & Morduch, 2005). This is done mainly through enterprise transformation services where FNGOs provide workshops and training programmes for MSE owners and managers in order to provide them with various skills in managing their enterprises (Ejaz & Ramzan, 2012; Valdivia, 2015).

One of the challenges facing MSEs particularly in Africa is the acute lack of managerial capital in terms of experience, knowledge, and skills to manage an MSE successfully (Macht & Robinson, 2009; Abor & Quartey, 2010; Fatoki, 2011). Over the years, the entrepreneurship literature in line with the thinking of Yunus (1999) of the Grameen Bank portrays financial resources to be the major constraint to microenterprise development. However, current research point to the fact that ET can improve microenterprise performance in various dimensions (Raven & Le, 2015). Newman, Schwarz, and Borgia (2014) therefore indicate that the provision of MC alone does not ensure the poor's success in managing an MSE. But rather the MSE owner needs to acquire varied skills and knowledge which makes him successful in achieving the best entrepreneurial outcome. Chowdhury (2009) therefore asserted that it is not just the issuance of loans to the poor that brings the

solution to poverty, rather the poor is expected to have entrepreneurial skills and creativity to succeed in any venture management process. The acquisition of such skills helps the MSE owner to identify, exploit and manage entrepreneurial opportunities for a commercial benefit (Astebro & Yong, 2016). Nagy et al. (2012) therefore contend that MSE owners who have a high level of human capital are able to use such skills to mobilise other necessary resources such as financial capital.

More so, the rapid rate of failure which is observed among MSEs particularly in Africa has been attributed to the lack of preparedness and weak managerial capital of the MSE owners (Ladzani & Van Vuuren, 2002). There is therefore a growing agreement in the entrepreneurship literature which suggests that the provision of ET to MSEs produces a positive impact on the venture performance (Chi et al., 2008; Newman et al., 2014).

Human capital which refers to both cognitive and non-cognitive skills that the MSE owner has acquired through education and experience contributes to a large extent his success (Lofstrom et al., 2014; Chen & Thompson, 2016). Fatoki (2011) also refers to human capital as a stock of competencies, knowledge and personality attributes embodied in an individual which helps to produce an economic value. The researcher argues that human capital development to acquire skills and knowledge through education and training should be an investment which individuals or organisations have to make. In a study by Terjesen (2007), two main types of human capital namely general (could be used across organisations) and specific (firm-related) has been identified and the researcher indicates that entrepreneurs such as MSE owners need to invest in both types to acquire the necessary skills and knowledge which makes them productive in managing their firms. In a related study, Fatoki (2011) provides the evidence that investment in both industry-specific and

entrepreneurship specific human capital development contributes significantly to MSE performance measures such as profitability and employment growth. Aggestam (2014) also argue that skilled human labour generates more positive externalities such as employment as well as a high impact on economic growth.

Usually, individuals develop their human capital through formal and non-formal education, and work experience acquired over several years (Davidsson & Honig, 2003; Kim et al.,2006). However, in a poverty-prone society such as Africa, it has been argued that acquiring human capital skills through education is often neglected since access and cost of such services deter the poor from acquiring knowledge and skills which are needed in the venture management process (Alvarez & Barney, 2014), hence the need for FNGOs to provide such services.

The above discussion points to the fact that ET should be an essential aspect of microfinance delivery to MSEs. There is therefore a consistent call for microfinance providers to adopt a more integrated approach in delivering their services where ET becomes the fulcrum of their activities (Newman et al, 2014). Because of the above reasons, the provision of ET has become one of the important services of FNGOs in Ghana.

### **3.5 The Institutional Logic of Microfinance Institutions**

The microfinance literature highlights a multitude of actors with different types of logic providing financial services to the poor. However, there seems to be a mess in classifying these logics (Radhakrishnan, 2015; IM & Sun, 2015). The institutional logic perspective of microfinance institutions explains how organisational action and focus is shaped by a shared belief about how microfinance should be delivered to the poor and the poorest of societies (Cobb et al. 2016). Thus, the institutional logic

adopted by an MFI creates expectations on the MFI within a given context. Shahriar et al. (2016) argue that the institutional logic which an MFI adopts determines its focus, services and products that it offers to the poor. Invariably, researchers have consistently traced the activities, strategies, actions, and internal operations of MFIs back to their adopted institutional logic (Cobb et al. 2016). Typically, three main institutional logics are present in the microfinance literature. IM and Sun (2015) identify the commercial logic, the social welfare logic and the hybrid logic. The hybrid institutional logic combines both the commercial and the social welfare logics in the delivery of microfinance services to the poor. However, it has been noted that a hybrid of these logics comes with its attendant challenges of balancing the mission of outreach to the poor as well as seeking profitability of the MFI (Battilana & Dorado, 2010; de Haan & Lakwob, 2010; Besharov & Smith, 2014). Therefore, MFIs in their pursuit of serving the needs of the poor can choose to follow any of the above-mentioned logics (IM & Sun, 2015; Ayele, 2015). Both the commercial and social welfare logics are discussed below.

### **3.5.1 The Social Welfare Logic**

The social welfare logic perspective of MFIs argues that the poor and poverty reduction should be the focus of MFIs rather than profitability. This logic sees microfinance as a social service which is solely aimed at poverty reduction (Brau & Woller, 2004). This school of thought therefore argue that if MFIs focus on profitability, the possibility to lose the focus on the poor and the very poor is very high. IM and Sun (2015) also pointed out that, MFIs which follow the social welfare logic tend to tolerate a moderate profit while focussing on serving the poor with the right products and services. From this perspective, the social welfare logic opines that institutional sustainability is very important, however, it is inappropriate and



compromising to sacrifice the depth of outreach to the poor to achieve such a financial viability which the proponents of the commercial logic hold. It is therefore suggested that subsidies and donations upon which microfinance activities has been built over the years can still make an MFI sustainable without necessarily focusing on profitability (Brau & Woller, 2004). This is because, when MFIs are driven by commercial motives, they tend to abandon their social objectives in pursuit of profitability (Copestake, 2007). By so doing, they end up drifting from their mission of poverty reduction by focussing on serving the non-poor with their services (Shahriar et al., 2016; Serrano-Cinca & Gutiérrez-Nieto, 2014).

Despite this luring benefit of profitability, FNGOs adopt the social welfare logic in providing MC to the poor as opposed to the commercial logic which is adopted by commercial MFIs (Brau & Woller, 2004; IM & Sun, 2015). In achieving their double-bottom line of poverty reduction and financial sustainability, FNGOs are noted to serve the poor with a very strong social objective (Mersland & Strøm, 2008; IM & Sun, 2015). Such a sense of purpose and dynamism exhibited in FNGO outreach activities, the quality of portfolios and various impact assessments conducted till date shows that they have become the microfinance provider of choice for many poor people who are excluded from the formal financial system in Ghana. Through FNGOs MSEs can access adequate microcredit which is moderately cheaper, accessible, with flexible repayment terms than other commercially oriented MFIs (Habib & Jubb, 2013). In addition to microcredit, FNGOs also develop the managerial skills of MSE owners by providing ET. This is because, as pointed out by Newman et al. (2014) microfinance clients do not only need microcredit to be successful in their entrepreneurial endeavours but rather the provision of managerial capability is crucially important for venture survival and management.

### **3.5.2 The Commercial Logic**

The commercial logic sees microfinance as a commercial activity which is intended to generate profit for the owners of the MFI (IM & Sun, 2015). The observation currently is that many MFIs globally have shifted their focus from their social objectives to adopt a market-based approach in rendering financial services to the poor (Allison et al., 2015; D'Espallier et.al, 2017). Thus, MFIs which adopt this logic focus on the breadth (number of clients served) rather than the depth (poverty levels of clients) of outreach of their services. The proponents of this logic argue that an MFI's financial viability through profit is a pre-requisite to effective outreach to the poor. According to Woller and Woodworth (1999), MFIs should be concerned with covering their operating and financing costs through their lending activities rather than through donations and subsidies. This logic also argues that raising the cost of microfinance services for the poor does not reduce its demand (Copestake, 2007). More importantly, it is only MFIs which are sustainable that can have an impact on poverty reduction but not MFIs which depend on donations and subsidies. Copestake et.al (2005) again pointed out that profitability is a means to achieve sustainability of microfinance programmes and it is a prerequisite to achieving the depth of outreach required of MFIs.

It is clear from the above arguments about the various logics that, the two schools of thought have different approaches to serving the poor with microfinance services. Morduch (2000:617) refers to this debate as the 'microfinance schism' and Woller et.al (1999:29) has described the situation as 'two nations divided by a common language'. However, Ayele (2015) pointed out that, there exist a trade-off between the two debates but the nature, extent and the implications of the trade-off are not resolved. This implies that the way the debate is resolved will have a significant

impact on microfinance in terms of its guiding principles, objectives, clients and delivery (Woller et.al,1999). Annim (2012) also concluded after a study of some selected microfinance institutions in Ghana that, there exists a trade-off between the institutional sustainability and the welfare goals of MFIs and that MFIs that mobilise their own funds without depending on subsidies and grants from donors are likely to be driven towards non-poor clients which is likely to make poverty reduction mission of microfinance an elusive concept.

In Ghana, many of the MFIs especially the deposit-taking institutions are observed to be following the commercial path whiles the FNGOs (Tier II & III) follow the social welfare path. Even though it comes with some benefit, the current trend of commercialisation of microfinance whereby many MFIs adopt a commercial approach to the delivery of microfinance is likely to lead to mission drift which has the capacity to further deny the poor of access to microfinance services (Hulme & Mosley,1996; Copestake, 2007). Bateman and Chang (2012) for instance argues that even though commercial microfinance is likely to generate some positive outcomes in the short run, it is likely to worsen the plight of the poor in the long run and will widen the current poverty gap that exists between the rich and the poor. This same argument has been made previously by Hulme and Mosley (1996); Otero (1999) and Drake and Rhyne (2002). These researchers argue that the current commercial approach to microfinance has been able to reduce poverty levels as expected but rather microfinance is observed to be perpetuating poverty. Adams and Von Pischke (1992) also argue that this modern commercial approach to microfinance is destined for failure because it is rather perpetuating poverty rather than alleviating it. Because of the above reasons, FNGOs become the most suitable

institutional arrangement in Ghana that is likely to reduce poverty and vulnerability of the poor.

### **3.6 Chapter Conclusion**

Ghana has a robust microfinance sector which seeks to empower the informal sector to participate fully in the economic development of the country. However, there are institutional, ideological and socioeconomic challenges that currently face the sector. FNGOs have proven over the years to be effective in reducing poverty in Ghana using their innovative methodologies (Battilana & Dorado, 2010). It is therefore not surprising that FNGOs seems to be more sustainable in terms of viability, outreach and impact on poverty reduction (Xiang, Jia, & Huang, 2014). There are however concerns that need to be addressed as far as the microfinance sector is concerned in Ghana. Some of these concerns include institutional sustainability, effective regulation, over-commercialisation of the sector, the use of appropriate methodologies that suits the poor, poor infrastructure, high default rates, multiple borrowing, and mission drift among others (Addae-Korankye, 2012). Mission drift has become a concern in the microfinance industry in Ghana whereby some MFIs consistently seek profitability rather than pursuing their social missions. However, FNGOs that seek to focus on their social missions are likely to make an impact on poverty reduction in Ghana. FNGOs in their operation in the Volta Region of Ghana are influenced by a myriad of institutional isomorphisms which is likely to change the course of service delivery of FNGOs to MSEs. Secondly, the ability of FNGOs to provide effective ET to MSEs makes them competitive in the Ghanaian microfinance market. The provision of ET by FNGOs could be the major strength of FNGOs delivering MC to MSEs in Ghana. The next chapter therefore discusses both the Institutional and the Resource-Based View theories which underpin this study.

## **CHAPTER 4: THE THEORETICAL FRAMEWORK FOR THE STUDY**

### **4.1 Introduction**

The previous chapter provided a discussion on FNGOs and their role in the delivery of MC and ET in Ghana. The chapter also detailed the regulatory regime, the institutional logic and the functions of FNGOs. From the discussions, it emerged that MSEs in Ghana lack both financial and human capital development opportunities hence the role of FNGOs in providing these two resources. From the discussion, it has been argued that MC can only have the desired impact on the performance of MSEs if it is combined with the provision of the requisite entrepreneurial skills through ET. Thus, the acquisition of such managerial and cognitive skills will equip MSE owners to manage their enterprises successfully (Aguilar, 2006; Yeboah, 2010). The focus of this chapter is to provide a discussion on the theoretical framework which underpins this study. Both the Institutional Theory (DiMaggio & Powell, 1983) and the Resource-Based View Theory (Barney, 1991) are discussed in relationship with the study of FNGOs and their delivery of MC and ET to MSEs in Ghana.

### **4.2 The Theoretical Framework for the Study**

#### **4.2.1 The Institutional Theory and the Delivery of Microfinance by FNGOs**

Institutional theory has been used over the years to study how social enterprises evolve in pursuit of their organisational goals and the nature of the various environmental factors which affects their growth, performance, and service delivery to their clients (North, 1990; Scott, 1992; Sambharya & Musteen, 2014). The institutional theory, therefore, gives researchers the opportunity to examine how different institutional settings affect organisational behaviours in different markets

and how these institutions themselves change over time in these settings (Bruton et al., 2009). Therefore, an emerging economy such as that of Ghana offers an interesting context to study the effect of the environment on FNGOs and their delivery of financial services to MSEs in order to have the desired impact on their performance. Indeed, in the delivery of services to MSEs in Ghana, FNGOs are influenced by a myriad of factors which is likely to change their focus and intervention strategies. Therefore, an integrated framework is needed to analyse the environmental conditions that are conducive to FNGOs and their peculiar social welfare logic which is pursued in the delivery of MC and ET services to MSEs (Gnyawali & Fogel, 1994).

FNGOs in Ghana are usually influenced by several institutional factors particularly when it comes to pursuing their goal of delivering both MC and ET to MSEs. DiMaggio and Powell (1983) classified these institutions into three isomorphic types namely *coercive*, *normative*, and *mimetic*. According to DiMaggio and Powell (1983), these three institutional mechanisms affect the type of changes which occur in an organisational environment and each with its own antecedents. In a similar study, Scott (2001) also classified these institutions into *regulatory*, *normative* and *cognitive*. In contrast to Scott's classification, DiMaggio and Powell's classification is adopted to underpin the study of FNGOs. The reasons for the adoption of this classification is in two folds. First, FNGOs seem to go through various changes in policy, approach and design of MC and ET products due to various environmental influences from coercive, normative, and mimetic institutions in Ghana. Such influences are likely to affect their social welfare logic which drives their operations. This influence might lead to changes in the operation of FNGOs regarding the delivery of MC and ET to MSEs in Ghana. For instance, changes in the operational

guidelines and licensing requirements of FNGOs due to policy directives from the Central Bank of Ghana could affect the service delivery options of FNGOs to MSEs. Secondly, since FNGOs transcend across various regions of Ghana in providing both MC and ET to MSEs, it is important they understand the process of acquiring legitimacy for their activities and services to MSEs. This is essential because there could be differences among coercive, normative and mimetic structures across various regions in Ghana and this demands various adaptations for an effective service delivery.

The goal of institutional theory is to inform the way in which institutions that are external to the organisation enforce standards of desirable, proper, and appropriate behaviour within certain socially constructed norms, values and beliefs (Scott & Meyer, 1983; Scott, 1992). Even though the analysis of internal structures of an organisation is important, current organisational studies tend to analyse the environmental conditions under which organisations perform, change and adapt (Mizruchi & Fein, 1999). More importantly, organisational studies focus on the type of institutions that can cause a change in the operation, focus, goals and strategy of an organisation. It is therefore not uncommon to see coercive, normative and mimetic institutions affecting FNGOs in their delivery of microfinance services to MSEs in Ghana (DiMaggio & Powell, 1983).

According to King et al. (2015), the three isomorphic categories as indicated above may overlap to some extent, but its specific emphasis lies in the enforcement of gaining legitimacy through the various institutional isomorphic types. Alvarez et al. (2011) also argue that organisations are also influenced by various socio-cultural factors such as beliefs, values and attitudes of a given society which eventually determines organisational strategy. Scott and Meyer (1983) in their study, identified

trade associations, cultural dynamics, social norms, educational institutions, professional associations, and markets as some of the environmental factors which are likely to influence organisations such as FNGOs. While the coercive dimension relates more to the delivery of MC to MSEs, both the normative and mimetic dimensions relate more to the delivery of ET to MSEs. This is because, FNGOs are legally required to provide certain kinds of financial services to MSEs with various thresholds as indicated by the Non-Bank Financial Institutions Act, 2008 (Act 744). However, when it comes to the provision of ET to MSEs, FNGOs are rather bound by normative and mimetic issues rather than coercive mechanisms. The provision of ET therefore comes as an additional service to augment the managerial capacity of MSE managers. The various isomorphic institutions are discussed below.

### **Coercive Isomorphic Institutions**

In delivering MC as an outreach service to MSEs in Ghana, FNGOs are influenced by coercive institutions which are regulatory in nature (DiMaggio & Powell, 1983). Coercive isomorphic institutions bring both formal and informal pressures on FNGOs to change behaviour and structures in conformity to societal expectations (King et al. 2015; McGaughey et al 2016; Smith et al. 2016). Shughart and Thomas (2014) indicate that there are two types of coercive power that can be exerted on FNGOs. The first one is the “top-down” imposition of rules where state institutions exert pressure on FNGOs to conform to rules and policy guidelines to gain legitimacy for their services. A typical example of a coercive power as far as FNGOs are concerned in Ghana is the regulatory mechanisms that are exerted by the Central Bank of Ghana which makes FNGOs observe and comply with certain licensing requirements without which FNGOs risk losing their operating licenses. The second



type of coercive power is the voluntary acceptance of rules where FNGOs agree to be bound by rules that constrain their behaviour and choices. A typical example of a voluntary acceptance of rules is the fact that FNGOs are supposed to willingly belong to the Association of Financial Non-Governmental Organisations (ASSFIN) which serves as an umbrella body for their activities. Most often than not, ASSFIN has regulations binding on all members as far as their operation is concerned.

This coercive power which is mainly political in nature could come from both formal and informal state institutions which are mandated by the regulatory system in Ghana to exert such pressures on FNGOs for the purposes of conformity. Thus, coercive institutions work mainly through the legal framework of a country where conformity to laws, rules and regulations becomes the yardstick for acceptance (Smith et al. 2016). The existence of a legal environment in a country therefore affects the creation, behaviour and management of FNGOs and the nature of services that are delivered to MSEs (Serviere, 2010). This implies that FNGOs in Ghana which do not conform to various financial laws such as the Bank of Ghana Act 2002, (Act 612), the Banking Act, 2004 (Act 673), the Non-Bank Financial Institutions Act, 2008 (Act 774), and the Companies Code, Act 179, 1963 which directly affects and regulates their performance, run the risk of closure and revocation of their operating license (Gallardo, 2001; Bank of Ghana, 2015). For instance, the Banking Act 2002 (Act 612) does not permit FNGOs to engage in foreign and offshore transactions. Therefore, a violation of such a law could lead to closure and withdrawal of operating license. Ntayi and Mutebi (2013) also indicate that coercive power dimensions in a country may also include market entry rules, bankruptcy laws; health and safety laws, environmental pollution laws, product regulation, and labour market regulations all of which affect the operation of FNGOs

in meeting their double-bottom line objectives (Ntayi & Mutebi, 2013; McQuarrie, Kondra, & Lamertz, 2013). Thus, in extending MC to MSEs, FNGOs are careful not to finance enterprises which are likely to violate health and safety and other environmental pollution laws. More importantly, financial regulations from the Central Bank of Ghana could streamline the financial operations of FNGOs to prevent irregularities and insolvency.

According to DiMaggio and Powell (1983:150), coercive power could be experienced by organisations as a “force”, or “persuasion” to gain legitimacy for their existence. Weerawardena et al. (2010) therefore argue that, since social enterprises such as FNGOs operate with a social logic to achieve their double-bottom line objectives, it is important they conform to various regulatory institutions to gain legitimacy for their operation. Usually, such conformity is expected to acquire legitimacy of their societal penetration, operation and outreach services (King et al., 2015; Trapczynski & Banalieva, 2016).

Legitimacy refers to the perception of an organisation's actions as acceptable, proper and appropriate based on a well defined regulatory framework in a country (McQuarrie et al. ,2013; Deephouse et al. 2016). King et al. (2015) also see legitimatisation as involving an implicit process that is concerned with applying the expectations of the surrounding society to gain acceptance. Gaining legitimisation for services is therefore an important step which all FNGOs need to take. For example, the Central Bank has instituted licensing requirements which clearly specifies the paid-up capital of FNGOs, office location requirements, borrowing rights, gearing ratios and portfolio requirements which require FNGOs to submit prudential reports to the Central Bank on a monthly basis (Bank of Ghana, 2015). In terms of capital requirements, all FNGOs are supposed to maintain a minimum capital of \$60,000

(Bank of Ghana, 2015). When FNGOs comply with the above requirements, legitimacy for their services is gained or maintained. However, the inability of FNGOs to comply with the above prudential requirements could lead to various forms of sanctions which may have a negative repercussion on FNGOs and the MSEs they finance.

FNGOs in Ghana particularly the foreign ones such as World Vision International, therefore need such legitimisation processes in order to gain acceptance. Considering the totality of the African environment, Fainshmidt et al. (2016) indicate that state institutions exert the most coercive power which has an important ramification on the existence, continuity of operation and performance of social enterprises. Finally, ASSFIN which is the umbrella body under which FNGOs are supposed to operate may sometimes be able to bring a coercive power on FNGOs who do not comply with the rules and regulations of the association (ASSFIN, 2017). Similarly, traders associations, women groups, farmer-based organisations and other types of organisations which FNGOs work with could exert coercive pressure which could alter the operations and policies of FNGOs. FNGOs, therefore, have to comply with and adapt to a myriad of coercive institutions in the delivery of MC to MSEs in Ghana.

### **Normative Isomorphic Institutions**

In contrast to the coercive institutional dimension, FNGOs in the delivery of ET to MSEs are also affected by normative isomorphic institutions which seek to enforce socially accepted behaviours that are driven by societal morals, values and obligations (Alexander, 2012). The normative isomorphic institutions refer to the type of external pressure which is used to induce conformity to professional standards by

peer networks (Mizruchi & Fein, 1999). The normative institutions according to Brundin and Wigren-Kristoferson (2013) exerts the desirable acts and appropriate ways that FNGOs should behave according to specific expectations which are either role or goal defined or even defined by societal obligations. Thus, the process of isomorphism causes FNGOs to conform to relevant norms, values and beliefs which are concerned with procedural legitimacy in gaining acceptance (McQuarrie, Kondra, & Lamertz, 2013). This is done by requesting an FNGO to perform a particular task in order to conform to certain acceptable standards (DiMaggio & Powell, 1983).

FNGOs in Ghana are expected to gain legitimacy by conforming to relevant norms, values and beliefs which are dominant in the communities in which they work (McQuarrie, Kondra, & Lamertz, 2013). Kshetri (2010) indicate that, for FNGOs to be successful in the delivery of ET and other related services to their clients, they need to take into consideration the values and the normative framework which exists in Ghana. Thus, it is important that FNGO practices are consistent with the Ghanaian value system and national culture which forms the foundation of all business practices in Ghana. For instance, some communities where FNGOs provide group loans may have values, norms and practices relating to their occupations or vocations and FNGOs will be made to conform to such community values and norms if they have to be recognised. Cultural practices therefore play a major role particularly in a developing country like Ghana where individuals and businesses attach sentiments to behaviours that are not consistent with cherished norms and values (Rubach et al., 2015; Ault, 2016). According to Kshetri (2010), the non-adherence to such societal norms and values may result in resistance from local, social and professional groups.

These normative institutions also refer to societal structures, practices, and standards which affect the manner in FNGOs deliver ET to their clients (Follesdal, 2009; Serviere, 2010). For instance, in certain communities in Ghana, there are community entry practices such as going through opinion leaders, chiefs and community heads. FNGOs will therefore be resisted if such practices are not adhered to. More so, Ghana has a wide cultural differences across various regions which FNGOs need to understand, value and practice in the delivery of ET. For instance the Ashanti Region in Ghana value the Twi language more than any other language in Ghana. Therefore, for FNGOs to deliver an effective training to MSEs in the Ashanti region, trainers need to understand this language and the various terminologies which may be associated with various business practices.

Alexander (2012) also indicates that normative institutions do not only define goals but rather they specify appropriate ways to pursue such goals to meet societal expectations. This implies that all value systems have its own rules of conformity. The elements of normative institutions may also include trade associations and professional associations that can use social obligation requirements to induce certain desirable behaviours in FNGOs for the purposes of conformity (Kshetri, 2010). In conclusion, the normative isomorphism drives FNGOs to critically consider their choice of training method, selection of trainers as well as the use of training materials which may not be offensive to trainees due to their acceptable values and norms.

### **Mimetic Isomorphic Institutions**

The mimetic dimension of the isomorphic institutions which occurs in organisations refers to the adherence and adoption of external values, culture, and technologies

which may be foreign to the organisation but has the potential to change the structures, process and values of the organisation (Mizruchi & Fein, 1999). Meyer and Rowan (1977) also indicated that, for an institution to achieve legitimacy with its constituents, they are supposed to conform to socially prescribed standards which are usually external to the organisation. Thus, FNGOs in the delivery of ET to MSEs may be tempted to imitate, adapt or learn from other FNGOs or MFIs. For instance, FNGOs may learn operational practices from commercially-oriented MFIs which may affect their delivery of services to MSEs. Usually, such imitation happens between FNGOs and other similar organisations which they come into contact with (DiMaggio & Powell, 1983; King et al., 2015). Meyer and Rowan (1977) noted that mimetic institutions may not always cause a positive change in organisational structures and strategy. However, the adoption and importation of rules which do not couple properly with internal structures may cause a wide internal variation in organisational behaviour. Therefore, it has been argued that organisations including FNGOs should be very clear and focused on their goals to prevent the wrong adoption of external rules and practices (DiMaggio and Powell, 1983).

One other cause of mimetic isomorphism, according to King et al. (2015) is that, when FNGOs face environmental uncertainties, they will be forced by circumstances to mimic their peers and leave their own policies. For instance, even though FNGOs use the social welfare logic in their delivery of ET to MSEs, changes in circumstances such as the introduction of new financial and operational regulations, competition, cost of operations and even demand from the MSEs themselves may cause FNGOs to emulate various external strategies and policies from other MFIs which may be inconsistent with the tenets of the social welfare logic. Thus, peer networks can have both positive and negative impact on organisational growth and

performance (Mizruchi & Fein, 1999). This implies that the more uncertain FNGOs are about their means and ends, goals and strategy, the greater the tendency for them to copy or imitate other MFIs which they perceive to be successful.

In conclusion, the general framework of the Institutional Theory has implications for the operation of FNGOs in Ghana. In the provision of both MC and ET to MSEs, FNGOs could be influenced by coercive, normative and mimetic institutions due to various reasons such as the introduction of new regulations, the presence of various norms or values across various regions in Ghana or the presence of uncertainties which may cause them to emulate strategies, policies and operational guidelines from other MFIs (DiMaggio & Powell, 1983; Chahine & Tannir, 2010). With such changes in the structure, strategy and values of FNGOs as a result of the influence from the various isomorphic institutions, the delivery of MC and ET to MSEs could be compromised and consequently, the performance of MSEs could be affected. Having discussed the institutional theory and its influence on the work of FNGOs, the next section discusses the Resource-Based View Theory and how it can enhance the competitiveness of FNGOs.

#### **4.3 The Resource-Based View Theory**

The Resource-Based View theory of strategic management argues that organisations achieve competitive advantage due to their internal characteristics and resources which are Valuable, Rare, Inimitable, and Non-substitutable (Barney, 1991). According to Barney (1991), if a company possesses and continuously exploits resources and capabilities that meet the VRIN criteria, it would achieve a competitive advantage as well as an above average performance. Thus, an effective delivery of MC and ET by FNGOs which meets the VRIN framework would make

FNGOs competitive and differentiate them from other MFIs in the Ghanaian microfinance market. For instance, if FNGOs deliver MC and ET which is valuable to MSEs, rare in the Ghanaian microfinance landscape and a service which cannot be imitated nor substituted for, it gives a competitive advantage to FNGOs over other MFIs in Ghana. This is because, as argued by Talaja (2012), the variations in the performance of MFIs could be attributed to how well both MC and ET are delivered to MSEs.

In achieving such competitiveness from the provision of MC, Šoltés and Ulman (2015) argue that there is the need to provide financial services to MSEs through the use of appropriate mechanisms and strategies. This is essential because microfinance is supposed to be targeted at the right beneficiaries in order to yield the right result on MSEs. Extending MC and ET to MSEs without adequately assessing their needs through a proper selection procedure may undermine the core values and logic behind FNGO activities. More importantly, FNGOs should be able to differentiate between those who need their services and those who do not (Helmès, 2006). Copestake (2007) details the three main approaches to target the beneficiaries of financial services by MFIs namely; using geographical mechanisms, product designs and adopting effective internal identification systems which clearly spells out the needs of the targeted MSEs.

In providing ET to MSEs, FNGOs focus on providing business development skills which equip MSE owners with various managerial skills to manage their enterprises successfully. It is therefore suggested that FNGOs should focus on providing skills which have a direct impact on the performance of the MSE. Skills such as communication, negotiation, conflict management, decision making and team building skills are recommended (Kanungo & Misra, 1992; Caproni & Arias, 1997).



Similarly, it has been argued that effective ET programmes which meet the VRIN criteria should focus on content design as well as the mode of delivery of such training programmes (Jantan et al. ,2004). More importantly, ET programmes should be designed to meet the managerial needs of the MSEs (Watad & Ospina, 1999). Thus, FNGOs are supposed to conduct a need assessment of the current managerial situation and what ought to be done in the future. These needs according to Watad and Ospina (1999) should not only be concerned about the current managerial needs but rather the strategic needs of the MSE should also be considered in providing ET programmes to MSEs. In this respect, methods such as the use of group discussions, assessment centres, advisory committees, interviews, performance reports, and surveys are recommended to identify such needs (Sabella and Analoui, 2015). Therefore, in understanding and meeting the training needs of MSEs can enable an FNGO to retain its clients and remain competitive in the Ghanaian microfinance industry (Simanowitz & Pawlak, 2005).

#### **4.4 Chapter Conclusion**

The discussion in this chapter covered the Institutional and the Resource-Based View Theories which are used to underpin this study. Firstly, the institutional theory has implications for this study because, in the process of delivering MC to MSEs in Ghana, FNGOs are influenced by a wide array of coercive, institutions which causes isomorphic changes in their operations, strategy and structures (DiMaggio & Powell,1983; Mizruchi & Fein, 1999; King et al. 2015). Similarly, in the delivery of ET to MSEs, FNGOs are also influenced by various normative and mimetic institutions in Ghana. Secondly, through the Resource-Based View theory, FNGOs must provide effective MC and ET to MSEs in order to stay competitive. Thus, when the quality of

MC and ET provided to MSEs meets the VRIN criteria, it makes FNGOs competitive in the microfinance industry in Ghana.

Since FNGOs adopt social welfare logic in the delivery of MC and ET to MSEs, they have been instrumental in supporting MSEs in acquiring both MC and ET and this in effect has an impact on the performance of MSEs (Fatoki, 2011; Blackburn et al., 2013; Raven & Le 2015). However, it is important to assess the nature of the impact of these resources (MC & ET) on the performance of MSEs. The next chapter therefore presents the conceptual framework and hypothesis regarding the impact of these two resources and how they affect the performance of MSEs.

## **CHAPTER 5: CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT**

### **5.1 Introduction**

The preceding chapter discussed both the Institutional and the Resource-Based View theories which have been used to underpin this study. This is in consideration of the fact that, in delivering both MC and ET to MSEs, FNGOs are influenced by several institutional actors namely coercive, normative and mimetic isomorphisms. More importantly, FNGOs remain competitive in the Ghanaian microfinance market through the provision of both effective MC and ET to MSEs which is valuable, rare, inimitable and non-substitutable. Undoubtedly, as noted in the previous discussions, the provision of MC and of ET to MSEs enhances their performance in various dimensions (Schneider, 1997; Latiffee, 2000; Deb & Suri, 2013; Newman, Schwarz, & Borgia, 2014). The purpose of this chapter, therefore, is in two folds. First, using various theoretical arguments, the chapter presents a discussion on the conceptual framework regarding the impact of MC and ET on the performance of MSEs which is used to underpin this study. Second, based on the conceptual framework discussed within the extant literature, hypotheses underlying this study are developed and presented.

### **5.2 The Conceptual Framework**

#### **5.2.1 Background to the Conceptual Model**

The literature reviewed so far indicates a lack of an integrated, coherent, and consistent conceptual model for examining the impact of FNGOs services on the performance of MSEs regarding the delivery of MC and ET in the Volta Region of

Ghana. Against this backdrop, the proposed conceptual model, and hypotheses in relation to the impact of MC and ET on the performance of MSEs is discussed below. The conceptual framework has been drawn from the various literature reviewed in this study which provides both empirical and theoretical evidence on the impact of this combined approach of MC and ET on the performance of MSEs.

There exist an established body of literature which suggests that the availability of financial resources to MSEs could enhance their performance and make them competitive (Yang & Konrad, 2011; Aldén & Hammarstedt, 2016). Also, a group of researchers have argued that access to financial capital by MSEs encourages them in making strategic decisions which impact on their profitability (Dunn & Holtz-Eakin, 2000; Bruton et al., 2005; Chowdhury & Amin, 2011). However, access to financial resources by MSEs particularly in Africa remains a challenge to their growth. This challenge is attributed to two main reasons. Firstly, it has been argued that the financial system in Africa is weak, shallow and ineffective and do not have processes in place to incorporate the informal sector where MSEs are mostly found (Mizruchi & Fein, 1999; Abor & Quartey, 2010; Sutter et al., 2013; Kistruck et al, 2015). More so, some state institutions such as the Central Banks which are coercive in nature promulgate financial and prudential regulations which inadvertently excludes the MSE sector from engaging in the formal financial system in Africa (Quartey,2003; Kwakyi, 2012). Secondly, it has been argued that the internal structures, management and operations of MSEs in Africa are weak and inefficient to the extent that, they become unattractive to formal financial institutions for lending purposes (Thormi & Yankson,1985). These inefficiencies result into information asymmetry challenges, lack of credit history, remoteness from markets, inadequate access to suppliers, lack of skilled labour and general moral hazard of the MSE sector which

provides the reasons for their difficulty in accessing formal financial resources (Lash, 2008; Haag & Henschel, 2016; Pathak & Varshney, 2017).

The lack of financial resources by MSEs as discussed above has necessitated the emergence of microfinance provided by socially-oriented institutions like FNGOs. Through FNGOs, MSEs can have access to financial capital in the form of MC which would have an impact on their performance (Battilana & Dorado, 2010). More so, the availability of MC provides the opportunity for MSEs to borrow from FNGOs to support their income-generating activities which have a positive impact on the MSE (Harper & Arora, 2005; Greely, 2005; Copestake et al. 2005; Helmes, 2006). Even though FNGOs are mandated to provide MC to MSEs in Ghana, they are usually influenced by a myriad of coercive and regulatory mechanisms which affects their strategy and product designs in serving MSEs. For instance, the recent change in minimum paid-up capital for FNGOs from Ghc 60,000 to Ghc 300,000 is likely to have an effect on the delivery of MC to MSEs in Ghana since FNGOs which are unable to raise the minimum capital face the risk of closure by the Central Bank of Ghana.

In another vein, there is a body of literature which point to the fact that MSEs do not only need MC to be successful in managing their enterprises. However, MSE owners need to be provided with ET which will develop their human capabilities (Fatoki, 2011; Newman, Schwarz, & Borgia, 2014; Rambe & Makhalemele, 2015). Thus, the acquisition of essential managerial capital and cognitive skills in terms of knowledge and management expertise is important for MSE owners to steer a venture successfully (Macht & Robinson, 2009). Therefore, training programmes that focus on providing various entrepreneurial skills such as communication, marketing, basic accounting, budgeting and human resource management are recommended

(Kirschenhofer & Lechner, 2012). This implies that FNGOs are not only concerned with advancing MC to MSEs but also, they are interested in providing other non-financial services such as business-related training to their clients (Habib & Jubb, 2013). FNGOs are therefore noted for using cost-effective and innovative ways to provide various non-financial services to support their MC activities to MSEs (Armendáriz de Aghion & Morduch, 2005). This is done mainly through enterprise transformation services where, FNGOs provide workshops and training programmes for MSE owners to develop various skills in managing their enterprises (Ejaz & Ramzan, 2012; Valdivia, 2015). However, in providing ET to MSEs, FNGOs are faced with influences from various environmental factors such as normative and mimetic institutions which seek to exert pressures on FNGOs to gain legitimacy and acceptance for their services. More so, FNGOs could remain competitive by providing effective ET to MSEs since Most MFIs particularly the commercially-oriented ones in Ghana do not provide ET to their clients. This is essential because the skills acquired through the provision of ET helps MSE owners to manage their enterprises successfully.

ET refers to the attempt to equip the MSE owner with the requisite managerial knowledge as an anticipation of having an impact on the performance of the firm (Dilani et al., 2007). Newman et al. (2014) noted that managerial training can be diverse ranging from a single consultation to a long training which can be individually tailored or group-based, focusing on mainly financial education and leadership skills. According to Huang (2001), such training programmes are expected to cause a change in the skills, knowledge and the attitude of the MSE owner. Astebro and Yong (2016) find that an investment in the acquisition of such managerial skills as described above promotes managerial performance and entrepreneurial success.

Azila-Gbetteor and Adjimah (2013) indicate that ET should be aimed at boosting the managerial capacity of the manager using structured courses to inform, train and educate on essential business and management skills. In a similar vein, Macpherson and Jayawarna (2007) pointed out that training programmes for MSEs should not be generic but rather such programmes should be determined by the firm characteristics and their peculiar circumstances.

The various indicators of MSE growth such as in employment, sales and profitability are known to be influenced by the quality of entrepreneurship training received by MSE owners (Huang, 2001; Raven & Le, 2015). Lau et al. (2012) argue that the acquisition of such managerial and cognitive skills is essential particularly for the managerial team because it influences the MSE's growth and competitiveness. Various studies have provided evidence to this assertion. For example, a study conducted in Peru observed that greater knowledge and business practices exhibited by entrepreneurs were because of the ET provided to them in a microfinance programme (Karlán & Valdivia, 2011). Another study conducted in Sri Lanka also concluded that entrepreneurship training had a direct impact on business practices of entrepreneurs as well as the profitability of their MSEs, particularly when it is combined with grants (De Mel, McKenzie, & Woodruff, 2014a). Similarly, another study conducted in the Dominican Republic revealed that financial training provided to entrepreneurs was positively related to improvements in their business practices as well as profitability (Drexler, Fischer, & Schoar, 2014). In the African context, Berge et al. (2015) concluded from a survey in Tanzania that financial practices of men who own MSEs correlate positively with the business training provided to them.

The above evidence points to the fact that entrepreneurship training could have a significant impact on the performance of MSEs. It is therefore recommended that MFIs adopt an integrated approach where ET becomes an integral part of their service delivery to MSEs (Newman et al, 2014; Drexler, Fischer, & Schoar, 2014). However, in providing an ET to MSEs, the various dimensions such as the content, frequency, efficiency, and accessibility are important in its delivery (Newkirk-Moore & Bracker, 1998; Jantan et al., 2004; Sabella & Analoui, 2015; Kambwale et al., 2015). Based on the above discussion, the conceptual model underpinning this study comprises two main factors namely;

- i. MC factors
- ii. ET factors

The expectation is that the combined delivery of MC with ET will have the desired impact on the performance of MSEs in employment, sales and profitability growth (Newman, Schwarz, & Borgia, 2014).

The relevant studies reviewed so far on MC showed mixed views and are inconclusive regarding the impact of MC on MSEs. As pointed out by Chliova et al. (2015), there exists currently a controversy about the impact of MC on the performance of MSEs. This controversy has earlier been highlighted in the microfinance literature by researchers such as Morduch (1998) and Copestake (2007). The assumption is that the divergent views on the impact of MC are attributed to the different approaches that are used in its delivery among other biases. Indeed, MC can be more supportive of MSE performance by effectively incorporating ET into its delivery. Therefore, conceptually, this study assumes that adopting a proactive and a conscious effort in incorporating ET into MC delivery can



positively have an impact on the performance of MSEs in its attempt to create employment, improve sales and profitability.

There are few other studies which proposed conceptual models establishing the impact of MC and ET on the performance of MSEs. Some of these models include that of Ekpe et al (2010), Akinbola et al, (2013), Minami (2013), and Al-Shami et al (2014). In critically reviewing the above conceptual models relating to the use of the combined approach of MC and ET in the performance of MSEs, the following observations have been made, and contributions are offered through this study towards the development of a model in relation to FNGOs. In Akinbola et al. (2013) an attempt was made to ascertain the extent to which MC has contributed to entrepreneurship development in Nigeria. From their study, it was concluded that MC plays a significant role in employment generation in Nigeria through the creation of various kinds of MSEs. Similarly, in the conceptual model of Minami (2013) the researcher indicated that there exists a strong relationship between MC and ET in promoting the growth of MSEs. In this model, drawing on the work of Gartner (1985), the researcher argues that the success of any MC activity on MSEs largely depends on the cognitive ability of the entrepreneur in terms of the effective use of resources, risk-taking, and the borrower's ability to discover new opportunities in their environment. In the conceptual model of Ekpe et al. (2010), the researchers attempted to develop a model to establish the relationship between MC and women entrepreneurship in Nigeria. In this model, the researchers have also emphasised the use of MC and ET as prerequisites for enterprise growth and expansion. Finally, the work of Al-Shami et al. (2014) is similar to the above model. The only exception is that the researchers have extended the delivery of microfinance to include savings and ET in the development of MSEs in Malaysia and Yemen. In this model,

therefore, the researchers have identified that; there is a direct impact of MC on MSEs which contributes to the growth of the MSE as well as the total well-being of MSE owner

By critically studying the above models, various weaknesses have been observed and this makes the model presented in this study unique and different from the above models. The differences as observed are as follows:

Firstly, the above models have failed to specify which type of microfinance institutional logic has been tested (whether social welfare or commercial logic) in their studies. The current study seeks to fill this gap by specifically researching into FNGOs, which follows the social welfare logic in the delivery of MC and ET to MSEs in Ghana. This is essential because the mission of an MFI determines its approach, products as well as its impact on MSEs (Shahriar et al. 2016). FNGOs with a strong social mission in the delivery of MC and ET to MSEs seem to be suitable vehicles to deliver the desired impact on MSEs.

Secondly, even though the above models have included financial education as a variable in their research, the design, content, and the measurement of ET has not been investigated. This is important because, for MFIs to deliver ET successfully to MSEs, there is the need to critically consider the design, content, frequency, efficiency and accessibility issues which this study has considered (Alasadi & Al Sabbagh 2015; Watad & Ospina, 1999; Jantan et al. ,2004).

Thirdly, one other weakness of the above models is that the researchers assumed that, MSEs need to have managerial knowledge by themselves without any external effort from the MFI. In Ghana, institutional support for MSEs is weak (Abor & Quartey, 2010). Because of this, it becomes difficult for MSEs to have ET on their

own without any external support. It is therefore suggested that ET should be provided directly alongside the MC delivery by FNGOs without any additional cost to MSEs (Odell, 2010; Yang & Konrad, 2011; Drexler et al., 2014).

The proposed model by Al-Shami et al (2014) undoubtedly has very good attributes and has incorporated interesting variables such as loan size, loan usage, MSE age, savings, employee level of education as well as management capacity development of MSEs. The control variables used in this model include gender and the type of lending methodology. The major advantage of this model is that it has considered other variables such as the repayment capacity of the MSEs as well as the sustainability of the MFI itself. However, this model has some weaknesses. Firstly, the model has failed to specify how the performance of MSEs would be measured. Measuring the performance of MSEs is an important step in assessing the impact of both MC and ET. Variables such as profitability, sales, and employment growth are key indicators of performance among MSEs (Storey, 1994; Fatoki, 2011; Blackburn et al., 2013; Raven & Le, 2015). Secondly, the model has also failed to critically investigate how ET should be delivered and measured as far as MSEs are concerned. The mere assumption that ET has a desirable impact on MSEs is not enough, but the approach to its delivery in terms of content, frequency, accessibility as well as its efficiency are important aspects which cannot be ignored (Kanungo & Misra, 1992; Caproni & Arias, 1997; de Mel et al., 2014). This study, therefore, attempts to include the above-named variables in the proposed model to ensure a comprehensive delivery and measurement of ET.

Having analysed the above model critically, the current study builds on the various aspects that were excluded from the model and specifically adopts and extends the model of Al-Shami et al. (2014) and investigates the impact of MC and ET on the

performance of MSEs in three main growth areas namely employment, sales, and profitability in Ghana.

This study is necessary because, it emphasises the fact that, ET should be incorporated into the MC delivery process focusing on the development of the human capability of MSE owners in Ghana (Karlan & Valdivia, 2011). Moreover, the impact of the combined use of MC and ET on MSEs with a specific focus on FNGOs has not received adequate research attention in Ghana. This research, therefore, attempts to fill this gap by studying this combined effect as well as providing an in-depth insight into how ET and MC are conceptualised as a combined strategy for supporting the growth of MSEs in Ghana. This has also been a recent prescription of Boateng et al. (2015) who suggested that the combined strategy of both MC and ET needs to be studied. Based on the above justification, the various hypotheses are discussed and presented below.

### **5.2.2 The Impact of MC Factors on the Performance of MSEs**

Financial capital remains a necessary ingredient for MSE survival and growth. Many MSEs, therefore, endeavour to access this capital through various means such as from commercial banks, personal savings or through informal sources such as from relatives and friends (Allison et al., 2015). Financial capital refers to the availability of monetary wealth which enables the entrepreneur to take an advantage of identified opportunities (Kuzilwa, 2005). Surprisingly even though various Governments in Africa seek to encourage the growth of MSEs particularly for their job creation role and contribution to GDP, many of these MSEs lack the necessary capital which is needed for growth and survival (Riding & Haines, 2001).

The reality is that MSEs which are the main engine of growth in Africa due to their proliferation are impeded by their lack of access to credit needed to support their growth (Snodgrass & Biggs, 1996). The challenge of limited access to credit has, therefore, made the process of raising entrepreneurial finance for a venture extremely laborious, expensive and sometimes discouraging for entrepreneurs.

The existing literature about entrepreneurship development in Africa has revealed that the lack of access to affordable credit remains one of the challenges facing the growth of MSEs (Asiedu et al., 2013). In fact, globally, Africa has the lowest financial penetration compared to other continents. With the exception of South Africa, only 20% of individuals in African countries have access to financial services (Popoola, 2009). It is also important to note that commercial banks in Africa have almost neglected MSEs in their lending activities and concentrated their efforts on large formal businesses who are able to provide the necessary collateral (Kuzilwa, 2005). In this way, commercial banks have the tendency to stifle the growth of MSEs. Fatoki (2011), indicates that most MSEs do not have the required financial capital for their entrepreneurial activities because of asymmetry information as well as moral hazard issues which lead to their denial of access to credit or in some other cases they obtain such credit at higher prices. Fatoki and Odeyemi (2010) also argue that the availability of trade credit opportunities in Africa could enhance the development of MSEs. Trade credit is particularly important for MSEs because it lowers their cost of operation compared to loans from financial institutions. This is because the cost of credit has remained a single most important challenge facing the growth of MSEs in Africa (Fatoki & Odeyemi, 2010).

Microeconomic theory treats finance as a factor of production regardless of the firm's age and size. Finance is used as a capital investment for either start-up or expansion purposes (Kuzilwa, 2005). It is widely accepted that a sound financial system can help promote economic growth, especially in developing countries, where access to credit is limited (Andrianova et al., 2008). Access to credit also influences MSEs' business decisions as well as financial goals (Bastiéa et al., 2016). It has also been noted that apart from access to basic financial capital, MSEs also need other forms of external financial capital such as commercial debt, leasing, supplier financing, and equity (Orser et al., 2006).

Financial capital is therefore one of the most important resources which are needed in the venture management process (Baughn & Neupert, 2003). However, MSEs in Ghana unlike huge organisations lack the needed financial resources which could make them viable and competitive (Yang & Konrad, 2011; Aldén & Hammarstedt, 2016). This is the case because MSEs in Ghana are excluded from accessing entrepreneurial finance from the formal financial system such as the commercial banks due to various challenges such as lack of credit history, the perceived risk associated with MSEs, weak or unavailable creditor protection systems and lack of the required collateral to secure such loans (Abor & Quartey, 2010; Allison et al., 2013; Dzansi & Atiase, 2014; Chliova et al., 2015). Other factors such as remoteness from markets, inadequate access to suppliers, poor business infrastructure and a lack of skilled labour are also some of the reasons which make MSEs less attractive in sourcing credit from the commercial banks (Pathak & Varshney, 2017). In light of the financial exclusion in Ghana, MSEs are forced to depend on informal sources such as from family and friends and money lenders which might not be sustainable and cheap for the operation of MSEs.

Due to the unavailability of these financial resources to MSEs, MC has emerged to address this access gap in supporting MSEs with the necessary entrepreneurial finance which is accessible and tailored to meet their needs (Gine´ & Townsend, 2004; Ahlin & Jiang, 2008; Guha & Chowdhury, 2013; Baland et al., 2013). Falco and Haywood (2016) in their research indicates that MC could have a positive impact on the performance of MSEs if it is used appropriately. The above assertion points to the fact that financial resources are very important for MSEs' operation which often aims at generating employment (Karlan & Zinman, 2012). However, in providing MC to MSEs, the cost, repayment flexibility, adequacy of the loan amount and accessibility of such financial services are important factors which needs to be considered by FNGOs (Fatoki, 2011; Deb & Suri, 2013). These various dimensions of the MC delivery are discussed below.

### **Loan Cost and MSE Performance**

The cost of credit is regarded as one of the important factors which negatively affects the operation of MSEs in Ghana (Egyir, 2010; Fatoki & Odeyemi, 2010). Pavlov, Poutziouris, and Soufani (2004) argue that small firms finance more than 50% of their operations through expensive lines of credit which might have an effect on their profitability. Indications also from the World Competitive Index reports and the various surveys by the Ghana Association of Industries show that the cost of credit has persistently been high and this has been considered as the main obstacle to investment and economic growth in Ghana (Kwakyi, 2012). This high cost of borrowing is attributed to the competitive borrowing by the Central Government and other institutional inefficiencies in the banking industry. MSE owners in Ghana, therefore, borrow at a high cost which increases their operational cost and in effect affect their profitability (Quartey, 2003; Abor & Quartey, 2010). Therefore, in

supporting MSEs in Ghana to generate employment, increase sales and be profitable, access to affordable and bearable credit, with adequate support systems is imperative (Ghosh & Tassel, 2013). This implies that coercive institutions in Ghana such as the Central Bank of Ghana which regulates the financial industry need to provide a conducive regulatory environment for FNGOs and other MFIs to provide adequate access to credit by MSEs (Shirokova & Tsukanova, 2013). This can be done through the reduction of minimum capital for FNGOs and other MFIs. Also, the Central Bank of Ghana has the responsibility of regulating the cost of credit so that it does not undermine the growth of MSEs.

### **Loan Repayment Flexibility and MSE Performance**

The design and availability of flexible loan products for MSEs have an impact on their performance in Ghana. MSEs especially the younger ones which have access to MC with a flexible loan repayment conditions perform better in employment generation and other outcomes than those without (Duan et al., 2009). Poutziouris, Michaelas and Soufani (2005) argue that most MSEs rely on short-term funding and this makes them susceptible to macroeconomic changes. Meyer (2002:351) also argues that providing a standardised loan product with a “one-size fits all” loan terms and condition may increase the risk of lending to MSEs and negatively affects their growth. More importantly, Since MSEs are uncertain about their future liquidity due to various factors such as declines in sales activity, delayed receivables or even price fluctuations, it becomes difficult for them to use financial sources which are rigid in nature (Pavlov, Poutziouris, & Soufani, 2004). Therefore, access to a flexible source of financing by MSEs which does not come with a high cost increases their liquidity levels as well as prepares them to deal with future financial challenges. For instance, Soufani (2002) also suggested that the process of factoring where



specialised firms purchase trade debts of MSEs could provide a flexible means of financing for small businesses and helps them to manage their liquidity and risk.

Wright (2000) therefore argues that the lack of flexibility of loan product design is one of the most important issues affecting MSEs in developing countries. The expectation is that FNGOs are supposed to design suitable financial products which meet the peculiar needs of MSEs in terms of interest rates, repayment schedules, loan administration and even the loan approval process itself (Meyer, 2002). Loan product flexibility also has the tendency to increase patronage of such products and thereby reducing dropout rates from MC programmes. It is therefore suggested that FNGOs operating in Ghana offer flexible loan products to MSEs which goes to support their growth.

### **Loan Adequacy and MSE Performance**

Loan adequacy for MSEs in Ghana has been an issue of concern for the growth of the sector. Research shows that most MSEs borrow from multiple sources due to the inadequacy of the loans received from their principal MFIs (Baklouti & Abdelfettah, 2013). Lending to MSEs in the Ghanaian environment is risky for MFIs due to the peculiar and vulnerable circumstances the owners of these MSEs find themselves (Donou-Adonsoua & Sylwester, 2016). However, adopting the appropriate credit risk management methods will provide the right assurance to both the MFI as well as the MSEs (Ayayi, 2012). Due to the risky nature and the low survival rate of MSEs in Ghana, most MFIs are hesitant to offer loans that could adequately meet their financial and expansion needs. In most cases, MFIs do not consider very important factors such as the size of the business, and the purpose of the loan in the loan granting process (Kwakyi, 2012). When loans are reduced abruptly without considering the above factors, it ceases to meet the needs of the MSEs. Financial

institutions in Ghana usually cite inadequate borrower identification, poor attitude towards credit, and poor loan recovery mechanisms as reasons for denying MSEs of adequate loans for business expansion purposes (Kwakyi, 2012). However, Ayayi (2012) suggest that MFIs should use pro-poor credit risk management methods such as the provision of ET, regular loan monitoring and group lending to manage such risks associated with MSEs. This will provide the confidence to FNGOs to extend the needed credit to MSEs. It is therefore expected that in extending MC to MSEs, adequacy issues should be considered in relation to the size and financial needs of the business.

### **Loan Accessibility and MSE Performance**

Accessibility to credit has the tendency to promote the performance of MSEs. More often than not, the formal financial institutions in Ghana are hesitant to extend credit to MSEs due to their acute failure rate, and lack of credit history (Haag & Henschel, 2016). It has also been observed that MSEs lack the required collateral which is needed to secure loans from formal financial institutions in Ghana (Lash, 2008; Haag and Henschel, 2016). In some other cases, MSEs lack the audited financial statements which are often demanded by formal financial institutions for the loan appraisal system. Due to the fact that MSE owners are not able to meet all these demands, they tend to depend on informal sources of funding including money lenders which are usually expensive (Abor and Quartey, 2010). Therefore, the above factors coupled with the general moral hazard of the formal financial system against MSEs creates a barrier to MSEs' access to finance (Mahmood et al., 2014). In dealing with accessibility to credit by MSEs in Ghana, Kwakyi (2012) suggest a direct government intervention in the creation of a special fund purposely to support the growth of MSEs. Also since FNGOs operate with social welfare logic in extending

credit to MSEs, FNGOs could be supported by Government with special dispensations in order to favourably extend MC to MSEs. This will reduce the current financial access gap which is observed in Ghana. Based on the discussion and findings in the literature as indicated above, this study considers MC factors such as loan cost, the flexibility of loan repayment, loan amount as well as loan accessibility to propose hypotheses in relation to MSE performance as follows:

*H<sub>1</sub>: Loan cost is negatively related to the performance of MSEs.*

*H<sub>2</sub>: Loan repayment flexibility is positively related to the performance of MSEs.*

*H<sub>3</sub>: Loan adequacy is positively related to the performance of MSEs.*

*H<sub>4</sub>: Loan accessibility is positively related to the performance of MSEs.*

### **5.2.3 The Impact of ET Factors on MSE Performance**

The availability of essential managerial skills is noted to enhance the performance of MSEs. The provision of ET is important because many MSE owners who are the target of FNGOs are often poorly educated and lack the requisite knowledge and experience to manage their own ventures successfully (Odell, 2010; Yang & Konrad, 2011; Drexler et al., 2014; Aldén & Hammarstedt, 2016). Skills such as writing a business plan, credit management, basic accounting, negotiation and inventory management skills are essential human capital skills which are needed by the MSE owner (Chowdhury & Amin, 2011; Alvarez & Barney, 2014). Boukamcha (2015) argue that ET programmes are essential for MSEs because it is fundamental to enhancing the individual knowledge and cognitive abilities of the MSE owner. It has

also been argued that ET programmes can also be used to address succession planning and conflict management issues in MSEs (Ibrahim, Soufani, & Lam, 2003).

Kirschenhofer and Lechner (2012) argue that since managerial capital cannot be acquired overnight, there is the need to provide MSE managers consistently with training which is geared towards the development of their expertise. Drawing from the above argument and the apparent need for managerial capital for MSEs in Ghana, the expectation is that MSE owners in the Volta Region of Ghana should be provided with a content-rich ET which is efficient, frequent and accessible (Newkirk-Moore & Bracker, 1998; Jantan et al., 2004; Neirotti & Paolucci, 2013; Sabella & Analoui, 2015; Kambwale et al., 2015; Muraguri et al., 2016). From the above arguments and research evidence, it can be concluded that ET has a major effect on the performance of MSEs. Considering the need for the development of the managerial capital of MSEs, FNGOs in the Volta Region of Ghana provide ET to MSEs to develop various managerial skills for a successful venture management. However, in providing ET to MSEs, Ibrahim and Soufani (2002) argue that personality traits of entrepreneurs such as the high need for achievement, the ability of the entrepreneur to take a moderate risk and the drive to be innovative are important factors which make ET programmes successful. In providing ET to MSEs, the various dimensions such as the training content, efficiency, frequency and accessibility are important factors which cannot be ignored (Neirotti & Paolucci, 2013; Sabella & Analoui, 2015). These various dimensions of ET provision are discussed below.

### **Training Content and MSE Performance**

The content and design of ET programmes are essential if it is to achieve the desired impact on MSE performance. Jantan et al. (2004) indicate that the success or failure

of an ET programme depends on the methods of delivery, content and objectives of the training. Sabella and Analoui (2015) also argue that the content of an ET should be designed based on the tasks and duties to be performed in the MSE. More importantly, ET designs should be based on the systematic analysis of the intended effects on the managerial function (Watad & Ospina, 1999).

De Mel et al. (2014) indicate that all ET programmes should start with needs assessment and organisational diagnostics of the manager/s to identify the various gaps which exist in their managerial capability. Sabella and Analoui (2015:685) refer to this as 'gap identification'. Thus, FNGOs are supposed to conduct a need assessment of the current managerial situation and what ought to be done in the future. These needs according to Watad and Ospina (1999) should include both the current and strategic needs of the MSE. FNGOs could, therefore, use methods such as group discussions, assessment centres and performance reviews to identify such managerial gaps in the MSE which needs to be addressed (Sabella & Analoui, 2015). Sidek and Mohamad (2014) indicate that ET programmes should provide business development skills which equip the MSE manager with the right competency in developing his business. In this direction, it is suggested that the content of such programmes should focus on providing technical, communication, negotiation, conflict management, decision making and team building skills (Kanungo & Misra, 1992; Caproni & Arias, 1997).

In a similar vein, Mano et al. (2012) argue that the content of ET should focus on productivity as well as the quality of the managerial function. This implies that content-rich ET programmes should provide the MSE manager with skills which are inimitable and also makes him efficient in performing the managerial role. Finally,

Sharma (2014) noted that the training content and methods should be motivating enough to generate the highest interest in participation and engagement.

### **Training Efficiency and MSE Performance**

Training programmes designed to equip MSE managers need to be efficient. Lincoln and Duñcet (1995) indicate that ET programmes should be efficient in terms of cost and time to MSEs. Neirotti and Paolucci (2013) also argue that one of the reasons many MSEs withhold investment from training programmes is due to the cost associated with such programmes and the use of inefficient methods of training. In a similar vein, Sharma (2014) observed that MSEs are reluctant to sign up for managerial training programmes which require substantial investment in terms of cost, time and organisational restructuring. MSEs, therefore, prefer training programmes which have greater flexibility in cost and business hours (Neirotti & Paolucci, 2013). The cost of training can, therefore, inhibit MSEs from accessing quality training opportunities. Moreover, Valdivia (2015) finds that the quality of the trainer in terms of experience and education could have an impact on the efficiency of the training process as well as on the transfer of knowledge after the training is delivered. Sharma (2014) therefore concluded from a related study that, the cost, quality and objectives of a training programme are essential factors which MSEs consider in assessing ET programmes.

Sabella and Analoui (2015) also, indicate that the selection of an appropriate training delivery method could determine whether a training programme becomes efficient or otherwise. This implies that the adoption of the most suitable training method enables trainees to learn effectively. In a similar study, Huang (2001) found that identifying the training needs of managers, designing the content, choosing suitable delivery methods for its implementation, and effectively evaluating training results

makes an ET programme efficient. Finally, Ment (2011) pointed out that, the efficiency of training programmes could also be enhanced through the use of an appropriate selection of training facilities as well as training activities in the training programme which in most cases is absent in rendering training to MSEs in developing countries.

### **Training Frequency and MSE Performance**

Training frequency is as important as training efficiency. MSE owners need to have constant training programmes which refresh their knowledge of critical business management practices and new methods of management (Rauch et al., 2005). Frequent training programmes could also intervene quickly in identifying business challenges at early stages before it gets out of hand. In such a case, the frequency of training programmes attended by MSE managers could prevent MSEs from failing totally. In a related study, Newkirk-Moore and Bracker (1998) observe that the frequency of attendance at an ET programme by MSE managers has a significant impact on firm performance compared to the control group which did not have frequent ET.

Another study which sought to relate the managerial performance of women entrepreneurs to their training frequency found out that, women who had frequent ET performed better in their roles than those who do not (Muraguri et al., 2016). Usually, such training programmes could be provided on a quarterly basis if the cost of such training is not prohibitive. The general assumption therefore is that managers who have frequent ET and capacity development in the required skills perform their roles better and make a significant impact on the performance of their MSEs (Dilani et al., 2007).

## **Training Accessibility and MSE Performance**

Generally, it has been observed that most MSE owners lack the necessary managerial capital which is needed to manage their ventures successfully. This lack of managerial capital has been the most important reason MSEs continue to fail sometimes without recovery particularly in developing countries where ET opportunities are scarce (Kambwale et al., 2015). In Ghana, for instance, most MSEs particularly the micro ones operate in the rural areas where training opportunities are unavailable. Therefore, the accessibility to quality and efficient ET could intervene in providing the necessary skills which are lacking in the MSE management process (Bager et al., 2015).

Al-Madhoun (2006) noted that since managers play a critical role in the success of the MSE, it is important they are provided with training opportunities either through internal or external training opportunities. Fatoki (2011) also argue that due to the lack of adequate formal education on the part of most MSE owners in Africa, there is the need to extend access to ET for MSEs without any barrier or limitation. However, as noted above, in extending access to ET, the cost of such training programmes plays an important role (Neirotti & Paolucci, 2013). This is because, as argued by Ibrahim, Soufani, and Lam (2003), the cost of training could play an important factor in small business training decision making. This is the reason FNGOs remain an important institution in the development of managerial skills of MSE owners in Ghana. Again, FNGOs are important because the training programmes offered to MSE owners are free and hence accessibility is ensured when it comes to the cost associated with ET programmes. Also, since most MSEs, particularly in developing countries, operate in remote areas, it has been suggested that the geographical concentration of such training programmes should be considered by FNGOs for easy



accessibility by MSE owners (Al-Madhoun, 2006). Based on the above discussion and evidence in the literature, the study considers ET factors such as training content, efficiency, frequency, as well as accessibility to propose the following hypotheses in relation to MSE performance as follows:

*H<sub>5</sub>: ET content is positively related to the performance of MSEs.*

*H<sub>6</sub>: ET efficiency is positively related to the performance of MSEs.*

*H<sub>7</sub>: ET frequency is positively related to the performance of MSEs.*

*H<sub>8</sub>: ET accessibility is positively related to the performance of MSEs.*

#### **5.4 Chapter Conclusion**

This chapter discussed the conceptual framework which underpins this study. Specifically, the impact of both MC and ET on the performance of MSEs is discussed. Thus, both MC and ET are various resources which FNGOs provide to support the growth of MSEs in Ghana (Fatoki, 2011; Newman et al., 2014). Undoubtedly, MSEs have the capacity to generate employment through the support received from FNGOs. More so, the impact of such resources has important ramifications for the sales and profitability growth of MSEs in Ghana. This implies that MSEs need to be supported to acquire the above-mentioned resources in order to be successful. However, since MSEs in Ghana are excluded from the formal financial system, the role of FNGO services in the provision of MC and ET is crucial. FNGOs intervene with their low-cost services to support the growth of these MSEs.

Having discussed the elements of the conceptual framework namely MC and ET factors, the study was designed, and data collected to test the impact of the various elements of the conceptual framework on the performance of MSEs in three growth

areas namely employment, sales, and profitability. The next chapter, therefore, discusses the research design and methodology adopted in this study to assess the impact of MC and ET on the performance of MSEs in Ghana.

## **CHAPTER 6: RESEARCH DESIGN AND METHODOLOGY**

### **6.1 Introduction**

The preceding chapter discussed the conceptual framework which underpins this study by drawing upon extant literature regarding the impact of MC and ET on the performance of MSEs. All the reviews done so far have reflected the research problem stated in chapter one. The methodology chapter therefore seeks to achieve three main but interconnected objectives.

Firstly, the chapter seeks to provide a comprehensive description of the research methodology. This is essential because every piece of quantitative work must have the capacity to be repeated and this can easily be achieved if the researcher provides a clear procedure as to the methods and procedures that were followed during the enquiry (Hussey & Hussey, 1997). The chapter, therefore, presents the techniques and methods used and explain how they effectively contribute to the achievement of the objectives of this study.

Secondly, this chapter provides justification for the philosophical choice, the various data as well as the methodological choices at each stage of this study. The rationale is that it provides guidance for future research and methodological choices in relation to the study of the impact of MC and ET on the performance of MSEs.

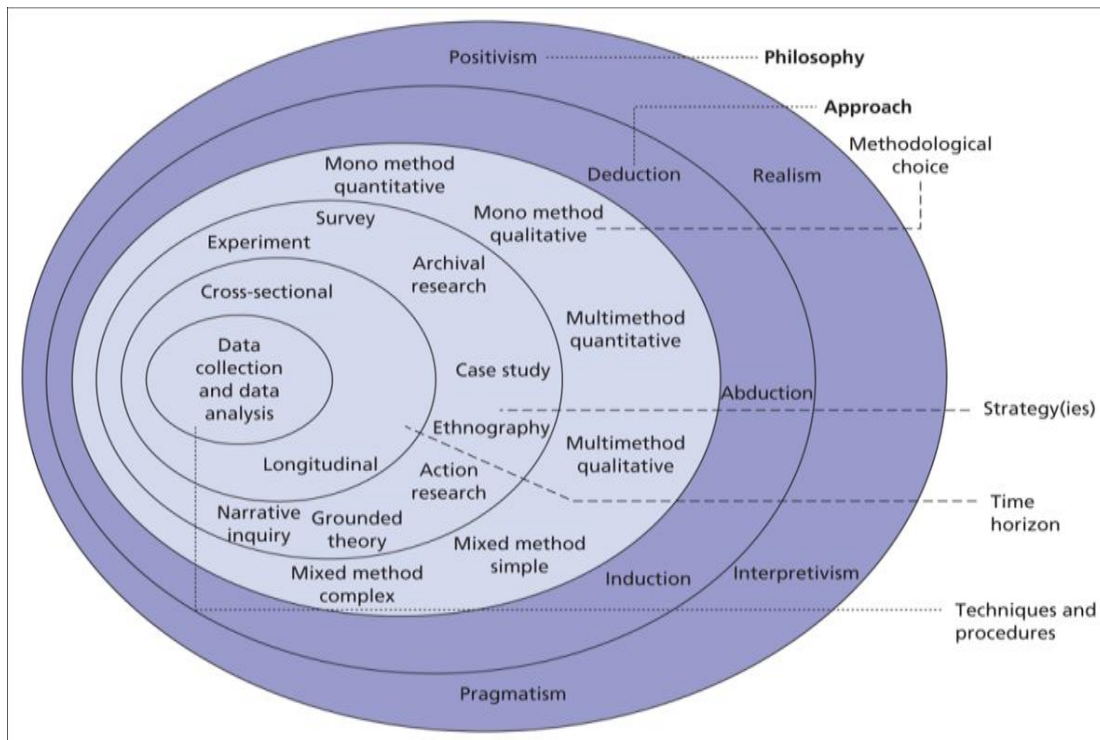
Finally, the chapter discusses the strengths and weaknesses of the various data and methodological choices. This is significant because, the impact of microfinance on MSEs could have a multi-dimensional effect which needs to be explored not only through quantitative studies but also through qualitative approach (Akindola, 2010; Magadi, 2010).

This study is underpinned by the pragmatic philosophical perspective which advocates for a pluralistic approach to resolving research problems (Baert, 2005; Saunders et.al.2009). Thus, the study adopts a combination of positivist and interpretivist research orientation in exploring and testing the proposed model discussed in Chapter 5 (Saunders, et al., 2009; Creswell, 2014).

## **6.2 Research Design**

A research design refers to a rigid structure or frame which is used to undertake a piece of research (Burns & Grove, 2001; Creswell, 2009). Polit and Beck (2012) also indicate that a research design is the ultimate research plan which is adopted by a researcher to answer a research question. There are four main areas of research design namely *philosophies*, *approaches*, *strategies* as well as the *methods* (Creswell, 2009). All these areas are engaged during the process of an enquiry. Therefore, it is expected that the researcher adopts the most suitable research design which has the capacity to answer the research question under investigation (Bono & McNamara, 2011).

Even though the definitions of a research design differ from the above account, the central point in a research design is its ability to investigate a research problem and obtain answers to a research question. Phillips (1971) pointed out that it is the roadmap for the collection, measurement and analysis of data. It provides the rigid framework for understanding relationships among study variables, research methods, sampling, data collection and analysis and outlining the entire structure for presenting a logical proof for drawing conclusions regarding variables under investigation (Bryman & Bell, 2007; Blumberg et al., 2008). Figure 6.1 shows the interrelationships among the various concepts which exist in a research design.



**Figure 6.1 The Research Onion**

Source: Adapted from Saunders et al. (2012)

This study seeks to assess the impact of FNGOs services on the performance of MSEs in their delivery of MC and ET to MSEs. To be able to achieve this aim requires the use of a suitable research design to collect the relevant data for the study, conduct effective data analysis and come out with the appropriate findings. The four areas of research design as indicated above are discussed below.

### 6.2.1 Research Philosophy

A research philosophy refers to the beliefs and assumptions of a researcher which guides the manner in which a piece of research is conducted (Burns & Burns, 2008). It also describes how the social world is viewed by the research as a way of enquiry. Thus, it answers the nature of reality or knowledge (ontology) and how the researcher understands and acquires knowledge (epistemology) (Hall & Hall, 1996;

Bryman, 2012). Thus, it is the researcher's beliefs about how new knowledge is to be acquired. Research philosophy is important because it is the basis upon which a researcher chooses a specific research approach, strategy or methods in conducting a piece of research. Any adopted research philosophy in the social sciences involves four main elements namely; *epistemology*, *axiology*, *ontology*, and the nature of *human behaviour* (Gill & Johnson, 2002; Bryman & Bell, 2011). Epistemology is a dimension of research philosophy which answers about the most appropriate method of knowledge acquisition. Thus, whether knowledge can be acquired objectively or subjectively (Hall & Hall, 1996; Bryman, 2012). More importantly, epistemology answers what constitute an acceptable knowledge in research. On the other hand, axiology refers to the values of the researcher and how this is likely to affect the conduct of a piece of research, the research process as a whole and the choice of methods of enquiry (Heron, 1996). Ontology refers to the nature of knowledge itself. It questions whether the existence of knowledge is an objective or subjective phenomenon (Bryman, 2012). Finally, human behaviour in research entails various assumptions about the ontological differences which exist between social science research and that of the physical sciences (Bryman & Bell, 2011; McAuley et al., 2007).

As indicated above, any research philosophy adopted by a researcher entails the epistemology, axiology, ontology and human behaviour (Creswell, 2014). However, due to the existence of the various variations and interpretations of research philosophy four main ones are usually considered in the social sciences namely positivism, interpretivism, realism and pragmatism (Saunders et al., 2009). Each of these is discussed below.

## **Positivism**

Positivism as a research philosophical choice points to the fact that, an acceptable knowledge can only be genuinely acquired through the use and extension of existing theories in the development and testing of appropriate hypothesis (Gill & Johnson, 2002). Positivism believes only in the scientific process of knowledge enquiry and discovery which is supposed to be deterministic, mechanistic, independent, empirical and methodical (Baker, 2003). Thus, it engages structured, systematic and objective methods in facilitating research replication and generalisation of findings (Gill & Johnson, 2002; McAuley et al., 2007). Ultimately, positivism believes that an excessive human engagement in the conduct of a piece of research distorts and dilutes the findings. The researcher should therefore be limited to data collection and its interpretation in an objective and observable manner which can be quantitatively analysed (Remenyi, 1998; Bryman & Bell, 2011).

Positivism is usually criticised on the grounds that it fails to recognise the fact that there is an ontological difference between a social science research which involves human engagement and that of the natural sciences which involve objects of investigation (Buckingham, 1918). Unlike the natural sciences, social sciences focus on human behaviour which needs to be investigated as to how it behaves the way it does and how it relates to the research results (Laing, 1967; Gill & Johnson, 2002). Because of this, various researchers such as Campbell (1978), Gould (1981), Kemeny (1956), and McNemar (1960) have levelled several criticisms against the positivist approach.

Other critics of positivism argue that it is a pretence to distance the study of a social phenomenon from its actors; hence a researcher who adopts a positivist philosophy cannot be distanced from the phenomenon being investigated (Bryman & Bell,

2011). This implies that the actors' viewpoint is critical in understanding any study that concerns them. Therefore, critics conclude that social science cannot fully adopt the natural science principles but rather research in the social sciences should be explained and interpreted from the contributions as well as the meanings attributed to it by the actors themselves. In other words, research in the social sciences should be understood in relation to the human behaviour of the research participants in the research process. Due to the above criticisms, the interpretivist research paradigm has been proposed. The next section, therefore, discusses interpretivism as a research philosophy.

### **Interpretivism**

Interpretivism as a philosophical choice dictates the focus on the details of a research situation and how the situational issues support the interpretation and meaning of the results obtained (Bryman, 2012). Interpretivism is usually referred to as constructivism or constructionism (Blumberg et al. 2008; Bryman & Bell, 2011). Interpretivism emphasises the fact that, there is a difference between research involving a social phenomenon and that of the natural sciences. Therefore, the social science researcher is expected to engage the subject of enquiry effectively in coming out with the results (Weber, 1947; Saunders et al., 2009; Bryman & Bell, 2011). This implies that the interpretation of results in the social sciences depends largely on the social context in which the subjects find themselves and how these contexts are understood (Blumer, 1986; Bryman & Bell, 2011). This is essential because social situations can be complex and researchers engaged in investigating social phenomenon need to understand the contextual meaning of issues by engaging the participants in the (Bogdan & Taylor, 1975; Bryman & Bell, 2011).



One major weakness of the interpretivist philosophy is that, it is unlikely to lead to the generalisation of findings to a larger population since contextual meanings and implications cannot be avoided (Bogdan & Taylor, 1975; Bryman & Bell, 2011). Zikmund et al. (2013) also pointed out that one of the weaknesses of interpretivism as a philosophical choice is that researchers in most cases become engrossed in the research process and interferes in it in such a way that the research findings become that of the researcher rather than that of the participants. Therefore, such a research evidence becomes researcher-dependent and cannot therefore be replicated nor verified. Finally, interpretivism entails subjectivity as well as participant engagement in the conduct of a piece of research.

### **Realism**

Realism as a research philosophy entails the fact that, there is a reality of knowledge which is separate and independent from the researcher's own knowledge, experience, as well as perception (Bryman, 2012). Realism prescribes that the researcher should endeavour to find, examine and understand this reality without contaminating it with his own experience (Saunders et.al. 2009; Bryman & Bell, 2011). This implies that the research process in terms of data collection, analysis, and interpretation of data should be as much as hypothesised and predictable (Bryman and Bell, 2011). Realism and positivism are similar in two ways. Firstly, both philosophies believe in the use of the same kinds of approach, methods of data collection, analysis, understanding and interpretation of data (Bryman and Bell, 2011). Secondly, both philosophies believe in the existence of an external and objective reality of which researchers should endeavour to investigate without necessarily interfering in the research process (Saunders et al., 2009). Two major forms of realism can be identified. There is empirical and critical realism. Empirical

realism asserts that reality can be understood through the use of appropriate methods which make observable reality possible without recourse to the underlying structures and mechanisms (McWherter, 2015). Secondly, critical realism recognises the fact that there is the reality of the natural order, events and discourses of the social world which can only be understood and changed by identifying the unobservable structures to generate the observable events and discourses (Scott, 2005; Johnston & Smith, 2010). It, therefore, behoves on the researcher to systematically identify the elements which are responsible for an event occurring in order to come out with the appropriate results (Scott, 2005).

### **Pragmatism**

Pragmatism as a philosophical choice prescribes the fact that the adopted research paradigm in a piece of research should be relevant and result-oriented (Baert, 2005; Saunders et.al. 2009). Thus, pragmatism argues that sometimes, it not just the choice of either positivism nor interpretivism to underpin a piece of research which matters. This is because, this may be sometimes unrealistic, impracticable and may not lead to the generation of the needed result (Baert, 2005; Morgan, 2007; Saunders et al., 2009). This implies that, in search of a research philosophy, strategy and method to underpin a piece of research, the most relevant and result-oriented ones should be adopted in a research enquiry. This means that the researcher should be able to combine various strategies, approaches and methods in researching a phenomenon in order to come out with the best results. This is because there are many approaches and strategies in researching and interpreting a research phenomenon and this should be explored since no single method of enquiry can adequately address all research problems effectively (Denscombe, 2007; Saunders et.al. 2009; Creswell, 2014). Therefore it behoves on the researcher

to identify the most appropriate, relevant, practical and necessary research paradigms, methods and approaches to effectively understand the subject of investigation (Rossman & Wilson, 1985; Creswell, 2014).

### **6.2.2 Justification for Research Philosophical Choice**

The researcher believes that there should be objectivity in research whereby research outcomes are not left for subjective interpretation of researchers. On the other hand, the researcher also believes that social science research cannot be strictly objective since it is important to understand the social world and the people involved with it. Therefore, the pragmatic research philosophy is adopted to underpin this study. This research will recognise both the objective and the subjective reality of the research phenomenon being studied (Saunders et al., 2009; Gill & Johnson, 2002). This philosophical choice can be justified as follows. Firstly, several studies in microfinance such as Coleman (1999); Chowdhury et al. (2005) and Mayoux (2005) have adopted a quantitative stance by objectively examining various aspects of microfinance and its impact on the individual and the household. However, it has been argued that these studies do not cover various contextual issues which seem to exist in all microfinance programmes (Besley & Coate, 1995; Armendáriz de Aghion, 1999). Moreover, qualitative studies have also been criticised to lack the kind of comprehensiveness which is needed to understand microfinance programmes, hence the call for a pragmatic approach which considers both the quantitative and qualitative dimensions in microfinance (Armendariz de Aghion & Gollier, 2000).

Therefore, it is important to understand from a qualitative point of view how MC and ET affect MSEs in Ghana taking into consideration the various factors which

influence the performance of MSEs. It has been argued that various factors such as the educational background of the MSE owner, gender, business location, access to institutional support and markets could influence how MC and ET are used by MSEs to support growth (Cooper, Gimeno-Gascon, & Woo, 1994). The use of figures to measure these factors alone may deny the researcher the opportunity to understand the subjective interpretation from the respondent's point of view which will shape the outcome and final discussion of this study (Mahmood, 2013). Therefore, interrogating these issues from both dimensions will enrich this study since some of these issues can only be best understood through personal experiences and account of the situation.

Secondly, in a developing country like Ghana, the institutional framework which is set up to support the growth of MSEs are void and ineffective (Aidis et al., 2008; Sutter et al., 2013; Ntayi & Mutebi, 2013). The influence of these institutions can best be understood from a qualitative account of the respondents. This is important because, the institutional framework in Ghana, particularly the coercive institutions are noted to have a direct impact on the performance of MSEs and understanding their nature and role from a personal account of the respondents will enrich this study.

Thirdly, it has been argued that the impact of microfinance could produce a multi-dimensional effect on clients as well as their businesses (Karlan & Goldberg, 2011). Therefore, multi-dimensional approaches which look at both quantitative and qualitative dimensions are usually recommended in microfinance studies of this nature (Akindola, 2010; Magadi, 2010; Nolan & Whelan, 2009).

From the above standpoint, it is adopted that the nature of this research lies between the positivist and the interpretivist paradigms which requires the process of triangulation of methods to fully explore how MC and ET affects the performance of MSEs with due consideration to other moderating factors such as gender, owner/managers' level of education, industry category and the age of the MSE (Gimeno-Gascon, & Woo, 1994; Anderson & Eshima, 2013; Miller, 2014). The positivist paradigm is seen to be appropriate in quantitatively measuring the performance of the MSEs engaged in this study. On the other hand, the interpretivist paradigm will further explore the views of respondents about the intricacies of MSEs and the various institutions which affect their performance.

### **6.3 Research Approach**

A research approach refers to the process by which theories are generated and tested in a social science research (Gill & Johnson, 2002; Saunders et al., 2009). It is a general orientation regarding theory and research (Bryman & Bell, 2011). Broadly, three major approaches exist in the social sciences, namely the inductive approach, the deductive approach, and the abductive approach. The various approaches are discussed below. The inductive approach which is qualitative in nature is used usually for theory building whiles the deductive approach which is usually quantitative in nature and is used mainly for theory testing. According to Bryman and Bell (2011), these two approaches can be used to complement each other in any research and that becomes an abductive approach. These three approaches are discussed below.

### **6.3.1 The Inductive Approach**

The inductive approach is exploratory in nature where the research process consists of observations, descriptions, and data analysis in order to determine whether emerging patterns can be identified to explain a research phenomenon. It is usually a bottom-up approach where theory is developed from an initial data observation to determine theory explanation (Burns & Burns, 2008; Bryman & Bell, 2011). The inductive approach depends heavily on drawing inferences from observed data (Hall & Hall, 1996).

One major advantage of the inductive approach is that it lends itself to an inductive inference to be made (Bryman, 2012). An inductive inference refers to drawing general conclusions based on very limited observations assuming that what is valid for the observed cases also holds for the general population (Hempel & Oppenheim, 1948; Bryman & Bell, 2011). However, one weakness of this approach is that, since an inference is not based on any premise, it is difficult to be specific to the extent of making any generalisation.

### **6.3.2 The Deductive Approach**

The deductive approach is the opposite of the inductive approach discussed above. This approach starts with an existing theory, develops hypotheses, collects and analyses data in order to test the theory (Bryman, 2012). Herein, the hypotheses are either confirmed or rejected based on the result of the test (Burns & Burns, 2008; Saunders et al., 2009). One major strength of this approach is that it helps researchers to determine whether their conclusions are valid or not. However, its weakness lies in the fact that, it cannot be used to provide an in-depth understanding

of the human behaviour of the actors in a research (Popper, 1959; Bryman & Bell, 2011).

### **6.3.3 The Abductive Approach**

The abductive approach is the combination of both the inductive and deductive approaches in a single piece of study. It involves both theory building through the identification of patterns in an observed data using an exploratory study as well as confirming or rejecting a hypothesis through the process of testing (Saunders, Lewis, & Thornhill, 2016). Saunders et al. (2012) indicate that instead of moving from theory to data (as in the case of a deductive approach) or from data to theory (as in the case of an inductive approach), the abductive approach moves back and forth in combining both approaches in a single study. More so, Dubois and Gadde (2002) argue that both the inductive and the deductive approaches could be combined in a research to compensate for the weaknesses identified in each other. The following quote from Dubois and Gadde (2002) offers an explanation for this approach:

*“ too much structuring of the study (i.e deductive approach) might blind the researcher to important features in the study which may be providing misleading information. On the other hand, a framework which is too loose (i.e. the inductive approach) may lead to indiscriminate data collection and data overload. The two types of frameworks fit the distinction between deductive and inductive approaches very well known as the abductive approach”* (Dubois & Gadde, 2002, p.558).

Table 6.1 below depicts the differences among the three approaches.

**Table: 6.1: Differences among Deductive, Inductive, and Abductive Research Approaches**

	<b>Deduction</b>	<b>Induction</b>	<b>Abduction</b>
Logic	In a deductive inference, when the premises are true, the conclusion must also be true	In an inductive inference, known premises are used to generate untested conclusions	In an abductive inference, known premises are used to generate testable conclusions
Generalisation	Generalising from the general to the specific	Generalising from the specific to the general	Generalising from the interactions between the specific and the general
Use of data	Data collection is used to evaluate propositions or hypotheses related to an existing theory	Data collection is used to explore a phenomenon, identify themes and patterns and create a conceptual framework	Data collection is used to explore a phenomenon, identify themes and patterns, locate these in a conceptual framework and test this through subsequent data collection and so forth
Theory	Theory falsification or verification	Theory generation and building	Theory generation or modification; incorporating existing theory where appropriate, to build new theory or modify existing theory

**Source:** Adapted from Saunders et al. (2016)



#### **6.3.4 Justification for Research Approach Choice**

Based on the research philosophy adopted above, the abductive approach was used for this study. As pointed out by Saunders, Lewis, and Thornhill (2016) the abductive approach could strengthen the research process through the adoption of both theory generation and theory testing approaches. This is because the two are known to be complementary to each other. As indicated earlier, microfinance studies could have multidimensional and multiple impacts on beneficiaries and their businesses which would defy any singular approach in coming out with a reliable result hence the adoption of the abductive approach in testing the various hypothesis introduced in chapter 5 regarding the impact of both MC and ET on the performance of MSEs. Through the abductive approach, the various qualitative issues regarding the impact of MC and ET on the performance of MSEs has also been explored.

#### **6.4 Research Strategy and Methodology**

There seems to be no single approved method or strategy for exploring a research question. There are many factors which determine which method to be adopted for a study. The reality of knowledge itself and what can be known about it (ontology); the type of knowledge being sought and how it can be acquired (epistemology); the purposes and goals of the study; the characteristics and the contextual environment of the study area; the researcher's own philosophy (whether positivism, interpretivism, realism and pragmatism), resources available for the study; and the academic background of the researcher are some of the factors to be considered (Creswell, 2003).

A research strategy refers to the general orientation towards a piece of study which is either quantitative or qualitative and sometimes a mixed strategy is adopted (Bryman & Bell, 2011). While a quantitative strategy involves quantification, measurement and analysis of empirical data, a qualitative strategy emphasises the narrative accounts and experiences of the various actors involved in the research (Flick et al., 2004). Sometimes both strategies can be combined in a single piece of research for a robust outcome and confirmatory purposes. This is referred to as the mixed strategy. This strategy stems from the fact that both the qualitative and the quantitative strategies have strengths and weakness of which they can be combined creatively to serve complementary roles (Denzin, 1970; Denscombe, 2007; Denzin & Lincoln, 2011). It is important that any strategy adopted for a particular study provides a direction to the specific methods and techniques that are supposed to be used in the data collection and analysis (Saunders, et al, 2009; Creswell, 2014).

Research methodology is an important aspect of any research endeavour. It refers to the various specific procedures, techniques and methods that are followed in conducting a piece of research in terms of data collection, analyses, and the dissemination of results (Creswell, 2009). These methods or procedures must comply with the scientific process for the purposes of research replicability. The various strategies are discussed below in detail.

#### **6.4.1 Qualitative Strategy**

A qualitative strategy is a research method for gathering different research data through individual opinions, introspection, observations, and interviews in order to have a clear understanding of a subject being studied (Saunders et al., 2012). Qualitative research examines the dynamic and holistic opinions of individuals about

a phenomenon within the context of their experiences (Denzin & Lincoln, 2013). Burns and Grove (2003:19) define qualitative strategy as "a subjective approach used to describe life experience and situation to give them meaning. Also, according to Denzin & Lincoln (2013), a qualitative approach is based on people's experiences and the uniqueness of the phenomenon being studied. Lincoln and Denzin (1998) see the qualitative strategy as a method which is based on people's experiences about a phenomenon being studied. According to Babbie and Mouton (2001), one of the strengths of the qualitative strategy is that it can focus on the exact context to bring out the meaning of human experiences in explaining a research phenomenon.

#### **6.4.2 Quantitative Strategy**

A quantitative strategy is a systematic study that involves the use of numerical analysis that provides a narrow and concise description of controlled variables (Muijs, 2011). According to Bryman (2008), a quantitative method is a strategy in research that involves the use of quantification methods in data collection and analysis. Saunders et al. (2009) explain that quantitative strategy is an inquiry into a human problem or social phenomenon that is based on testing or proving a theory with statistical variables to ascertain whether the theory is true. A Quantitative study uses a positivist approach of research, which is based on scientific strategy, and assumes that realities can be systematically and objectively studied in an orderly manner (Polit & Beck, 2012; O'Dwyer & Bernauer, 2014). One of the advantages of the quantitative strategy according to Punch (2005) is that the findings of the research which is based on a sample could be generalised to a larger population. This implies that the knowledge gained from the sample of a study can benefit the larger population.

### 6.4.3 Mixed Strategy

A mixed strategy or method is a situation where both the qualitative and quantitative methods are combined in a single study. The mixed strategy stems from the recognition that both the qualitative and the quantitative strategies have strengths and weakness which can be combined creatively to serve complementary roles (Denzin, 1970; Denscombe, 2007; Denzin & Lincoln, 2011). Fielding (2012) argue that the mixed strategy could be adopted for the purposes of illustration, convergent validation or for the richness of a study. Denzin (1970) also argue that the greatest benefit of the combination of quantitative and qualitative research is that, each approach can compensate for the weaknesses of the other. Polit and Beck (2012) indicate that the mixed strategy enhances the validity of the research results due to the use of multiple complementary data in the study.

The mixed strategy can be used in a situation where two different methods are combined in a single research (Denscombe, 2007:135; Denzin, 1978:302). The purpose of this is for validation of methods and results (Hall & Hall, 1996). Once a research proposition has been confirmed by two or more independent methodological processes, uncertainty in interpretation is greatly reduced hence its validity (Imran & Yusoff, 2015). However, if research results indicate divergent views, it raises further research concerns which demand an investigation.

In implementing the mixed strategy, Creswell (2014) has identified three main strategies namely *concurrent triangulation*, *explanatory sequential triangulation*, and *exploratory sequential triangulation strategies*.

The concurrent triangulation strategy involves the collection of both qualitative and quantitative data at the same time (Morgan, 2007; Creswell, 2014). The main aim of

this strategy is to provide an integrated information from the analysis of the results. The explanatory sequential triangulation strategy involves the collection and analyses of quantitative data at phase one followed by the collection and analyses of qualitative data at phase two. The phase one serves as an input into the second phase which seeks to search for clarifications of the quantitative results. One main weakness of this strategy is the unequal sample sizes that are used in each phase (Morse, 1991; Creswell, 2014). The last strategy which is the exploratory sequential triangulation strategy involves the collection and analyses of qualitative data at phase one followed by the collection and analyses of quantitative data at phase two. The main aim of this strategy is to first explore a research problem and later test the model for the purposes of generalisation (Morse 1991; Morgan 2007). Again, the unequal sample size at each stage of the process is a weakness of this strategy.

#### **6.4.4 Justification for the Triangulation Strategy**

Based on the pragmatic philosophy adopted for the study, the mixed strategy has been used to assess the impact of both MC and ET on the performance of MSEs (Morgan, 2007; Creswell, 2014). Thus, the study adopts both the quantitative and qualitative strategies to underpin this study. In the extant literature explored in microfinance studies such as Coleman (1999); Chowdhury et al. (2005); Mayoux (2005); Coleman (2006); Hermes and Lensink (2007); Kim et al. (2007); Morduch (1998); Schreiner and Woller (2003), it has been observed that these studies were conducted using experimental, quasi-experimental research and survey designs which are all quantitative in nature using either cross-sectional or longitudinal data. On the other hand, other studies such as Goetz and Gupta (1996); Schreiner and Woller (2003), Zapalska et al. (2007); and Kanak and Liguni (2007) were observed to

adopt the qualitative strategy in conducting such studies. A review of the methodological approaches of the above studies reveals that the researchers have adopted either the quantitative or qualitative analysis even though different statistical methods or data analysis were used. However, most microfinance studies which employed mainly quantitative methods including econometric analysis have been criticised for not taking into consideration the context and dynamics involved in a microfinance programme (Besley & Coate, 1995; Armendáriz de Aghion, 1999). Also, when qualitative methods are also used, these studies tend to examine only segments which lack a comprehensive analysis of microfinance programmes (Armendariz de Aghion & Gollier, 2000). A mixed strategy is therefore preferred in undertaking a microfinance study of this nature where both quantitative and qualitative dimensions are effectively explored to address the research problem (Mahmood, 2013). It is preferred because microfinance research usually concerns poverty reduction. However, since the role of MSEs and poverty issues can be complex and multidimensional in nature, a mixed method is best suited to understand the intricacies in managing an MSE particularly in a less developed environment like Ghana. Therefore, this study using a cross-sectional data due to time constraints, adopt the mixed research strategy to examine the impact of both MC and ET on the performance of MSEs in Ghana.

The mixed strategy is chosen because there is the need to test the proposed model relating to the impact of MC and ET on the performance of MSEs as well as the need for an in-depth understanding of the impact of MC and ET on the performance of MSEs as delivered by FNGOs (see Figure 6.3). Fielding (2012) argues that the mixed strategy should be adopted for the purposes of illustration, convergent validation or for 'richness' of a study. Considering the complexities of a microfinance

research of this nature, the mixed strategy is more appropriate to answer the research questions of this study. Moreover, it is also important to validate the quantitative data collected using the qualitative study (Fielding, 2012). Thus, a quantitative data were collected in the first instance and a qualitative data collection followed after three (3) weeks of quantitative data collection. A quantitative data using a self-administered questionnaire was collected in April 2017 involving 506 MSEs in Ghana and this was followed by a qualitative study with 10 MSE managers. The two processes are explained in detail below.

Firstly, because there is an available literature from which the conceptual framework and the hypotheses were developed, the quantitative study is appropriate for testing the model underpinning this study which is the first phase of the explanatory sequential triangulation strategy where the self-administered questionnaire was used to collect data from the 506 MSEs in Ghana. The assumption being hypothesised for this study, which requires the use of quantitative strategy, is that "effective delivery of both MC and ET provided by FNGOs to MSEs has an impact on the performance of MSEs. With the quantitative study, the study was able to establish the relationship between MC and ET and the performance of MSEs in the above-mentioned areas. Thus, the proposed model was tested using the quantitative strategy. The use of the quantitative strategy is therefore justified to be appropriate for this study. In effect, the quantitative strategy helped in providing answers to the question “**what** is the relationship between MC, ET and MSE performance?”

Secondly, the qualitative data collection phase was the second phase of the explanatory sequential triangulation strategy where the study explored the views of the 10 selected MSE managers on the impact of MC and ET on the performance of their MSEs. The interviews were facilitated with a questionnaire as a data collection

instrument. The qualitative data helped the researcher to have a rich and an in-depth description of the impact MC and ET on MSEs. Apart from finding out the relationship between MC, ET and MSE performance, the study also wanted to find out the views of the managers of the MSEs on the impact of MC and ET on the performance of their MSEs. The quantitative strategy was unable to explain why and how MC and ET contribute to the performance of MSEs. This, therefore, demands the use of the qualitative approach to providing further explanation of the outcome of the quantitative study. In effect, the qualitative approach helped in addressing the “**how**” of the research question. Thus, how MC and ET impacts on the performance of MSEs in terms of employment generation, sales growth, and profitability growth. In summary, the research design of this study is pragmatism which uses both inductive and deductive approaches through a survey and interviews. Questionnaires were used to collect both the quantitative and qualitative data which were analysed with both quantitative and qualitative data analysis techniques respectively.

## **6.5 The Research Setting and the justification for the choice of the Volta**

### **Region of Ghana**

This study is designed to assess the impact of FNGO services (MC and ET) on the performance of MSEs in the Volta Region of Ghana which is one of the ten (10) regions of Ghana. Three main reasons justify the choice of the Volta Region as the location for this study. Firstly, recent surveys in Ghana indicate that the Volta Region is one of the poorest regions with a high incidence of poverty compared to other regions (Awumbila, 2006; Dzanku, 2015). According to the 2014 Ghana Living Standard Survey, more than half of the 25 Districts in the region have a higher incidence of poverty above the national average of 24.2% (Adjasi & Osei, 2007). For



instance, Adaklu District has the highest incidence of poverty (89.7%), followed by the Kadjebi District (66.8%) and Agortime Ziope District having 62.1% incidence of poverty (Ghana Statistical Service, 2014). According to the report, the majority of the Districts in the Volta Region have been ranked at the bottom of the national poverty ranking. Even though this study does not measure poverty directly, poverty reduction cannot be divorced from all microfinance programmes (Helmes, 2006). Due to the high incidence of poverty in the region coupled with the fact that when FNGOs provide MC to MSEs the ultimate goal is to reduce poverty for their beneficiaries through their various enterprises. This poverty-related dimension of FNGO activities has influenced the choice of this region for the study.

Secondly, due to the mission of FNGOs regarding poverty reduction coupled with the fact that the Volta Region has a high incidence of poverty, the intensity of FNGO activities is high in the Volta Region of Ghana. Most of the largest FNGOs currently working in Ghana have branches in this region and provide both financial and non-financial services to MSEs across this region with extensive branch networks. The presence and the intensity of FNGO activities in the region have therefore made them one of the most dominant providers of entrepreneurial finance and its associated services to MSEs in the region. This provides a justification for the choice of this region for this study.

Finally, the Volta Region is endowed with several natural resources including the Volta River. Due to these resources, there is the presence of various entrepreneurial activities in the region. For instance, several MSEs are dominant in the regional capital which serves as the market centre for many businesses. These MSEs ranging from trading, hospitality services, transport and distribution services, as well as the sale of building materials, are located in the Volta Region. It is therefore

possible to investigate the performance of these MSEs regarding the MC and ET received from FNGOs. This also provides a justification for the choice of this region. Therefore, looking at the reasons provided above, this study finds it justifiable and worthy of investigation the impact of FNGO services on the performance of MSEs in the Volta Region of Ghana.

Four FNGOs (Evangelical Presbyterian Development and Relief Agency, EDSAM Social Network, Universal Capital FNGO and AshRud Ghana FNGO operating in the Volta Region of Ghana were investigated in this study. The total clients for the selected FNGOs in the Volta Region is 2,647 and this represents the total population of the study. Based on the sampling criteria, a sample frame of 2,461 is generated. Out of this sample frame, 720 MSEs in the region were sampled for this study. In terms of percentage, this sample forms 27.2% of the regional population of FNGO clients. These FNGOs were selected for this study because they are very dominant in the region with various branch networks. Secondly, these FNGOs are known to contribute immensely to the development of MSEs through their outreach programmes such as in the provision of MC and ET which seeks to promote the performance of these enterprises. By using the stratified random sampling as indicated above, it can be said that the sample characteristics of this study are similar to that of the population being studied. The sample from the Volta Region is therefore likely to be representative of the population under study. Similar microfinance studies in Ghana provide evidence to this (see. Onyina & Turnell, 2013; Tsiboe, Zereyesus, & Osei, 2016).

### **6.5.1 The Research Population**

A research population refers to the totality of all subjects with similar characteristics which conforms to the specifications of a study (Denzin & Lincoln, 2013). According to Fowler (2014), a research population is the total elements from which data is drawn regarding a study and this can include individuals and organisations. Alternatively, Burns and Grove (2001) define a research population as all the elements that meet the eligibility criteria to be included in a piece of study. Therefore, the population for this study refers to all the clients of FNGOs (Mostly MSE owners) in the Volta Region of Ghana. The total population for this study is 2,647 clients who were the total clients of all the FNGOs in the Volta Region at the time of this study.

### **6.5.2 Unit of Analysis**

A unit of analysis is an important element from which data is obtained for a study. Also, a unit of analysis is the main group or elements that are selected from the sample for a research study (Kumar, 2014). The unit of analysis for this study, therefore are the MSEs and their various aspects which are being studied. Various aspects of MSEs such as access to microcredit, cost of credit, loan adequacy, flexibility of repayment of microcredit, ET content, accessibility to ET, efficiency of ET, frequency of ET, and other performance indicators such as employment, sales and profitability are measured and analysed.

### **6.5.3 Sampling Criteria**

The sampling criteria state the specific characteristics that must be possessed by the elements in the population to be included in the study (Denzin & Lincoln, 2013). Burns and Grove (2008) state that the characteristics for inclusion delimit the research population of interest. Therefore, to meet the aims and objectives of this

study, the MSEs must have specific characteristics. For an MSE to be included in this study, they must have met all the following four characteristics:

- i. Must be operating in the Volta Region of Ghana.
- ii. Must have registered with an FNGO and must have accessed MC facility and ET from FNGOs at least for two consecutive years
- iii. Must have been in business operation for not less than two years.
- iv. Must have either registered with the District/Municipal Assembly or with the Registrars General's Department.

#### **6.5.4 Sample Frame**

A sample frame is a subset of the total population from which the sample size is selected for a study (Kumar,2014). The selection of a sample for a study depends on the size of the population of the study, population characteristics, cost and degree of precision needed (Salant & Dillman, 1994). One prerequisite for the selection of a sample in a study is to have a defined and narrowed target of the population under investigation. Since the population for this study is all the MSE clients of the 4 FNGOs operating in the Volta Region of Ghana, which at the start of the survey was 2,647, then the sample frame for this study is the clients which were found in the database of the 4 FNGOs at the time of the study and had met the sampling criteria as indicated above. In total, the 4 FNGOs in the region had a total of 2,461 MSEs (EPDRA: 1875, AshRud: 225, EDSAM: 214 and Universal Capital: 147) who have benefited from their MC and ET facilities and have met the sampling criteria for inclusion in this study. Hence the sample frame for this study is 2,461 MSEs.

### **6.5.5 Sampling Technique**

Sampling is defined as the process by which a suitably reasonable number of individuals or research elements are selected and studied to establish a research outcome regarding the entire population under consideration for a study (Frey et al., 2000). In other words, sampling is the method by which the sample of the population is selected to be a true representative of the entire population for a study. For this study, stratified sampling technique was used to select the sample for the study. Stratified sampling is a method of sampling through which the target population is divided into subgroups (strata) and a random sample of the population is selected from each subgroup to represent the entire population (Babbie & Mouton, 2007; Pradhan, 2013). Thus, the stratified sampling involves dividing the target population (the total clients of FNGOs in Ghana) into homogeneous and non-overlapping stratum based on each FNGO. Focussing on the Volta region of Ghana, four stratum were identified, and respondents were selected from each strata using a stratified random sampling technique (Lapko & Lapko, 2014). Based on the above criteria, all MSE clients of EPDRA-FNGO, AshRud-Ghana-FNGO, EDSAM-FNGO and Universal Capital-FNGO were put into four groups by convenience to represent the various strata. Stratified sampling was used because of the homogeneous nature of the FNGO clients and the focus of activity of each FNGO in the Volta Region of Ghana. The main strengths of the stratified random sampling technique are that it ensures precision, convenience as well as a better coverage of the research population (Lapko & Lapko, 2014).

### 6.5.6 Sample Size Determination

A sample size is a number that is selected representative of the population from which data is collected for a study (Frey et al., 2000). For the quantitative data collection, a sample size for MSE clients for each FNGO category was determined using a sample size determination formula developed by Yamane (1967) as follows:

$$S = \frac{N}{[1 + N (e^2)]}$$

Where: S = sample size, N= target population, e = marginal error (degree of freedom = 0.05 (5%). The sample size for each of the FNGOs was determined as follows:

**Table 6.2: Sample size determination for quantitative study**

EPDRA	AshRud	EDSAM	Universal Capital
$S = \frac{1875}{[1 + 1875 (0.05^2)]}$ $= \frac{1875}{1+(1875 \times 0.0025)}$ $= \frac{1875}{1+4.6875}$ $= \frac{1875}{5.6875}$ $= \underline{330}$	$S = \frac{225}{[1 + 225 (0.05^2)]}$ $= \frac{225}{1+(225 \times 0.0025)}$ $= \frac{225}{1+0.5625}$ $= \frac{225}{1.5625}$ $= \underline{144}$	$S = \frac{214}{[1 + 214 (0.05^2)]}$ $= \frac{214}{1+(214 \times 0.0025)}$ $= \frac{214}{1+0.535}$ $= \frac{214}{1.535}$ $= \underline{139}$	$S = \frac{147}{[1 + 147 (0.05^2)]}$ $= \frac{147}{1+(147 \times 0.0025)}$ $= \frac{147}{1+0.3675}$ $= \frac{147}{1.3675}$ $= \underline{107}$

Based on the sample size determination formula (see Table 6.2), the sample size for the quantitative data collection was 720. With regards to the qualitative data collection, based on a stratified random sampling, a proportionate stratification was executed to the remaining list of MSEs to select 10 MSE managers for the qualitative study as presented in Table 6.3. Out of the 720 self-administered questionnaires sent out in March 2017, 506 fully completed questionnaires were retrieved generating a response rate of 70.2%. The study achieved a high response rate because all FNGOs operating in the Volta region use group lending methodology which made it possible for the researcher to meet the majority of the MSE owners at various group meetings at the same time for the survey. Table 6.3 below provides details of the sample size for both the quantitative and qualitative study.

**Table 6.3: Sample size for quantitative and qualitative study**

<b>FNGO</b>	<b>Sample Frame</b>	<b>Quantitative Sample Size</b>	<b>Qualitative Sample Size</b>
<b>1. EPDRA -FNGO</b>	1875	330	$(330/720) \times 10 = 5$
<b>2.AsRud Ghana -FNGO</b>	225	144	$(144/720) \times 10 = 2$
<b>3.EDSAM- FNGO</b>	214	139	$(139/720) \times 10 = 2$
<b>4.Universal Capital- FNGO</b>	147	107	$(107/720) \times 10 = 1$
<b>Total</b>	<b>2461</b>	<b>720</b>	<b>10</b>

### 6.5.7 The Sampling Procedure

To identify which MSE manager to select from each stratum for the survey, the names, and contacts of the MSEs were obtained from their respective FNGOs in the Volta Region. The names of the MSEs were fed into a Microsoft Excel Spreadsheet and were first sorted in an alphabetical order. To select an MSE from each stratum, the Microsoft Excel RAND Function was employed. The RAND Function is: **=RAND BETWEEN (1, n)**, where n represents the sample frame of each stratum. This was used to generate random numbers which ranged from 1 to 1875. For instance, for EPDRA-FNGO, the excel command is: **=RANDBETWEEN (1, 1875)**. The random numbers generated which also corresponded with the names of the MSEs in a stratum were then re-arranged in ascending order with the help of Microsoft Excel. Generating random numbers for each stratum provides a fair chance for each MSE to be selected. Based on the sample frame of each stratum, the MSEs were identified in the order in which they appeared. For instance, in group one (EPDRA), the first 330 out of the 1,875 MSE clients of this FNGO were selected to be involved in the study. The same process was done for each of the groups which brought the total sample size to 720 MSEs who were contacted for the final data collection.

### 6.6 Sources and Type of Data

Both the quantitative and qualitative data used in this study was from primary sources. The primary data for the quantitative study were sourced from the 506 MSEs in the Volta Region using a self-administered questionnaire. For the qualitative study, 10 MSE managers in the Volta Region were also interviewed using a questionnaire. Primary data are usually used to investigate a new research problem. In other words, primary data helps to investigate a new research phenomenon with a



new approach. According to Saunders et al. (2007), primary sources are the records or events where original data are obtained for a study.

## **6.7 Constructs Development for the Quantitative Study**

After critically reviewing various microfinance models (Ekpe et al. 2010, Akinbola et al, 2013; Minami, 2013 and Al-Shami et al. 2014), the study designed a conceptual model that uses a combined approach of MC and ET to have the desired impact on the performance of MSEs. Drawing from the literature (Newman, Schwarz, & Borgia, 2014; Sidek& Mohamad, 2014; Fatoki & Odeyemi, 2010; Al-Shami et al. 2014), the researcher proposed that there exists a strong relationship between MC, ET and MSE performance. The researcher is of the view that the success of any MC activity on the performance of MSEs largely depends on the entrepreneurial ability of the borrower in terms of the possession of adequate entrepreneurial and managerial skills which could be acquired through ET. Based on the proposed conceptual model, the following constructs were developed:

### **6.7.1 MC Construct**

MC is very important in the venture creation process of the financially excluded who are usually poor in nature (Karlan & Zinman, 2012). The main purpose of MC is to provide the necessary financial resources to MSEs which have the possibility of creating employment and other perceived benefits to the MSE owner and his household. MC is important because most MSEs do not have access to the needed financial resources to support their growth strategies in Ghana (Abor & Quartey, 2010; Dzansi & Atiase, 2014). Thus, MSEs are often excluded from accessing formal finance to support their income-generating activities (Allison et al., 2013; Chliova et al., 2015). Based on the evidence in the literature and the conceptual model

discussed in chapter 5, the following dimensions for the MC construct were developed:

- i. Loan cost
- ii. Loan Amount
- iii. Flexibility of Loan Repayment Method
- iv. Loan Accessibility

The measurement of each variable is described below.

### **Loan Cost**

In measuring the cost associated with microcredit, three (3) main items namely loan interest, processing fees and loan deposit were used (Angelucci et al.,2015; Kistruck et al.,2015; Mahmood & Rosli, 2013). Each of these items was measured using a Likert scale anchored by strongly disagree(1) and strongly agree (5) indicating levels of agreement of MSE owners regarding the cost of microcredit to their MSEs.

### **Loan Amount**

In measuring loan amount, three (3) items indicating sufficiency of the loan amount for the business, satisfaction with the loan amount and whether the loan amount granted by the FNGO was less than the amount applied (Kwakyi, 2012; Baklouti & Abdelfettah, 2013; Donou-Adonsoua & Sylwester, 2016; Nielsen, 2016). Each of these items was also measured using a Likert scale anchored by strongly disagree (1) and strongly agree (5).

### **Flexibility of Loan Repayment**

Flexibility of loan repayment has been measured using three (3) items namely flexibility of repayment schedule, flexibility of loan repayment amount (loan

instalment) and the convenience of loan term to meet business needs. (Meyer, 2002; Wright, 2000; Duan et al. ,2009). Each of these items was measured using a Likert scale anchored by strongly disagree (1) and strongly agree (5).

### **Loan Accessibility**

Loan accessibility was measured using three (3) items namely the ability to understand loan requirements, whether loan application and approval process were cumbersome and finally whether loans applied for were timely approved (Snodgrass & Biggs, 1996; Hamilton & Fox, 1998; Fatoki & Odeyemi, 2010). Each of these items was measured using a Likert scale anchored by strongly disagree (1) and strongly agree (5).

### **6.7.2 ET Construct**

To have the desired impact on the performance of MSEs through MC, it has been argued that MSE managers need to be provided with the right entrepreneurial and managerial skills to successfully manage their enterprises. Various entrepreneurial skills such as product development, customer management, accounting, and financial management skills as well as planning skills are important for the MSE manager (Fatoki, 2011; Newman et al., 2014). Therefore, the provision of ET is therefore critical to the success of the MSE owner. Based on the evidence in the literature and the conceptual model discussed in chapter 5, the following dimensions of the ET construct were developed:

- i. Training Content
- ii. Training Efficiency
- iii. Training Frequency
- iv. Training Accessibility

The various variables are further discussed below.

### **Training Content**

ET content was measured using eleven (11) items namely management methods, accounting and financial management skills, customer relationship management, management of information systems, leadership and teamwork skills, creativity and problem-solving skills, communication skills, workplace safety, the use of machinery, service delivery methods and new service and product development skills (Kanungo & Misra, 1992; Caproni & Arias, 1997; Jantan et al., 2004; Sidek & Mohamad, 2014). Each of these items was measured using a Likert scale anchored by strongly disagree (1) and strongly agree (5).

### **Training Efficiency**

ET efficiency was measured using five (5) items namely cost of training, timeliness of training, whether training was well understood by managers, whether training supported manager's personal development and finally whether training provided by FNGOs helped in resolving identifiable business challenges (Lincoln & Duřcet 1995; Valdivia, 2015; Sharma, 2014; Sabella & Analoui, 2015; Ment, 2011). Each of these items was measured using a Likert scale anchored by strongly disagree (1) and strongly agree (5).

### **Training Frequency**

ET frequency was measured using five (5) items namely satisfaction with the frequency of training provided, whether training does not disrupt planned business activities, whether the frequency of training enabled knowledge application, whether training frequency encourages participation in future training, and finally whether

training frequency ensures update of current challenges in the MSE (Newkirk-Moore & Bracker, 1998; Rauch et al., 2005; Dilani et al., 2007; Muraguri et al., 2016).

Each of these items was measured using a Likert scale anchored by strongly disagree (1) and strongly agree (5).

### **Training Accessibility**

ET accessibility was measured using two (2) items namely the difficulty in accessing training from and general satisfaction of accessibility to training from FNGOs (Al-Madhoun, 2006; Neirotti & Paolucci, 2013; Fatoki, 2011; Kambwale et al., 2015).

Each of these items was measured using a Likert scale anchored by strongly disagree (1) and strongly agree (5).

### **6.7.3 Measuring the Performance of MSEs**

Defining and measuring an organisational performance remains a complex challenge due to the lack of consensus on the definition and measurement tools to be used. This has made MSE performance research to be a subject of concern for researchers for several decades. Fatoki (2011) defines performance as the results of activities of an organisation over a given period under consideration. Broadly, there are two approaches to measuring performance. Performance measurement can be done in an objective manner where parameters such as profitability, competitiveness, efficiency, and productivity are used (Raymond et al. 2011). On the other hand, firm performance could also be measured using a subjective approach where benchmarks such as the satisfaction of stakeholders, coherence and quality of human resources are engaged to measure the performance of the firm (Storey, 1994; Raymond et al. 2011). Most importantly, performance measurement should be

multidimensional in nature consisting of financial indicators such as profitability growth, sales growth, market share, returns on equity, and non-financial indicators such as the overall satisfaction of owners, employment growth, customer satisfaction, employee satisfaction, customer loyalty, and brand awareness (Storey, 1994; Fatoki, 2011; Blackburn et al., 2013; Raven & Le 2015).

Chong (2008) indicates that there are four main approaches namely the goal approach, the system resource approach, the stakeholder approach, and the competitive value approach that are suitable for measuring the performance of MSEs. Whilst the goal approach measures the ability of the MSE to attain its goals, the system resource approach assesses the ability of the MSE to obtain resources for the effective operation of the enterprise. Both the competitive value and the stakeholder approach measures the performance of the MSE by its ability to meet the needs and expectations of customers, suppliers, and competitors. In another study, Mudambi and Treichel (2005) indicate that there are eight performance measures for MSEs which includes efficiency, growth, profitability, size, liquidity, success or failure and leverage.

Specifically, the entrepreneurship literature indicates that MSE performance could be measured using indicators such as profitability, competitiveness, efficiency, and productivity (Raymond et al. 2011). Other financial indicators which are also used in the entrepreneurship literature includes profitability growth, sales growth, market share, and return on equity (Storey, 1994; Fatoki, 2011). In another vein, Storey (1994) indicates employment, sales and profitability as indicators for measuring the performance of MSEs. However, the use of non-financial indicators such as the overall satisfaction of owners, employment growth, customer satisfaction, employee

satisfaction, customer loyalty, and brand awareness has also been noted in the literature (Blackburn, Hart, and Wainwright, 2013). Based on the evidence in the literature and the conceptual model discussed in chapter 5, the following dimensions of the performance construct (P) were developed:

- i. Employment Growth
- ii. Sales Growth
- iii. Profitability Growth

These indicators of MSE performance were selected because the researcher wanted to measure performance using the objective approach prescribed by Storey (1994; Blackburn, Hart, and Wainwright, 2013) rather than the subjective measurement which might be limited in this research environment. Secondly, employment growth of MSEs is regarded as one of the most authentic measures to determine growth hence its authenticity to determine the performance of MSEs (Magableh et al. 2011).

### **Employment Growth**

One of the key performance indicators which are usually used in assessing MSEs is their ability to generate employment (Storey, 1994; Fatoki, 2011). Among MSEs, the measurement of employment generated over a period has been one of the core measures of measuring MSE growth (Bögenhold & Fachinger, 2007; Magableh et al. 2011). Thus, it is thought that the ability of the MSE to meet an additional cost in terms of wages indicates financial growth. More importantly, employment generation measures the efficiency of an MC programme since this is the main objective of providing MC to microfinance clients (Otero, 1999). Therefore the ability of an MSE to generate a self-employment for the owner as well as generate both skilled and

unskilled labour for others in a community indicates growth and represents the best way to measure performance (Magableh et al. 2011). Therefore this study has used employment growth as one of the indicators to measure the performance of MSEs. This indicator according to Blackburn, Hart, and Wainwright (2013) represents a more realistic approach to measuring the performance of MSEs since employment figures can be proven. The study therefore measured employment growth by capturing real employment data from MSEs for a period of five years (2011-2015). The five-year data is then aggregated to generate the growth rate which has been used in the regression analysis.

### **Sales Growth**

The ability of an MSE to generate enough sales of its products and services signifies performance and growth (Storey, 1994; Fatoki, 2011). Sales growth is seen as an avenue for cash flow into the business in order to meet both financial and non-financial goals of the MSE. In a related study by Paglia and Harjoto (2014), sales growth has been recognised as one of the main indicators of growth apart from employment. It is therefore suggested that MSEs are provided with all kinds of support such as access to credit, product development skills, marketing skills, and customer management skills which will increase their ability to sell their products (Fatoki, 2011). Also, Scott and Bruce's (1987) five-stage growth model for small businesses indicate that MSEs go through sales growth which is one of the indicators of growth and performance. Even though sales growth has been widely used in the entrepreneurship literature to measure MSE performance, it has been argued that in most cases, sales figures could not be relied on as a true measure of performance (Raposo et al., 2011). Notwithstanding this shortfall, sales growth has been used widely in measuring the performance of MSEs in the entrepreneurship



literature and it has also been used in this study also to measure the performance of MSEs. The study measured sales growth by capturing real sales data from MSEs for a period of five years (2011-2015). The growth rate was calculated by taking the year-to-year changes and the five-year data was then aggregated to generate the growth rate which has been used in the regression analysis.

### **Profitability Growth**

Profitability has been used as one of the measures for the growth of all profit-oriented organisations (Storey, 1994; Raymond et al. 2011; Blackburn, Hart, & Wainwright, 2013). In a related study, Roper (1999) indicated that a firm's turnover and return on assets remain an indispensable growth indicator particular for MSEs where access to resources are limited. It is therefore emphasised that MSEs need to make strategic choices which could enhance their profitability position. Strategic choices such as sales growth, market positioning and effective asset utilisation could have a positive impact on MSE profitability (Roper, 1999). In order to increase profitability, Baker and Sinkula (2009) contend that MSEs need to adopt both market and entrepreneurial orientation which will make them competitive and ensures business continuity. With the above evidence, profitability has been used to measure the performance of MSEs. The study measured profitability growth by capturing profitability data from MSEs for a period of five years (2011-2015). The five-year data is then aggregated to generate the growth rate which has been used in the regression analysis.

### **6.7.4 Control Variables**

Even though FNGOs provide MC and ET to MSEs, the impact of these activities on their performance may be influenced by MSE characteristics and the way in which

these inputs are used. There are several factors which influence the performance of MSEs. One of the significant research in this direction has been conducted by Cooper et. al (1994) where it was concluded that factors such as 'education, gender, management know-how, specific industry knowledge, access to the market as well as industry category are critical to the growth of MSEs. Drawing on the concept of competitiveness and the competency approach, Man et al. (2002) indicates that, internal firm factors, the external environment, and the influence of the entrepreneur are the three main factors which affect the performance of an MSE. Building on the role of the entrepreneur in the success of the MSE, Miller (2014) argues that, individual characteristics such as the willingness to take a risk with personal resources, the drive to achieve autonomy, power and independence, plays a major role in contributing to the performance of MSEs. According to Park and Bae (2004), the growth patterns of a successful MSE vary according to three main factors namely; the initial conditions facing the firm at the time of the founding, the entrepreneur's characteristics and management abilities, and finally the strategy to develop and accumulate technological capability. The researchers again emphasised that technological capability of a firm determines to a larger extent its growth and performance.

In terms of ownership structure, Wu et al. (2007) indicate that MSEs which are family owned and are sole proprietorships have access to equity financing from personal resources than their counterparts with shareholding structures. This is because sole proprietorships would want to avoid agency conflict and excessive control by public shareholders. Moreover, owner-managers of MSEs can drive MSEs to higher performance than non-owner managers. This happens because; founding family

leadership (CEO or Chair) can regulate the relationship between ownership structure and firm performance as well as reducing agency cost (Randøy & Goel, 2003).

Therefore, based on the evidence in the literature and the conceptual model discussed in chapter 5, the following are used as control variables for this study:

- i. Age of business
- ii. Industry category
- iii. Manager's level of education
- iv. Gender

These variables were selected because, it has been observed that gender, industry category, the level of education of the MSE manager as well as the age of the MSEs could influence how both MC and ET are used to achieve performance goals (Cooper et. al,1994). These variables are further discussed below.

### **Age of Business**

The age of an MSE is noted to influence its performance. Both current and strategic needs of an MSE depend on its age (Cooper et al.,1994). It has also been argued that both start-up and old firms face different categories of challenges which need to be addressed (Scott & Bruce, 1987; Anderson & Eshima, 2013). Therefore, in extending MC and ET to MSEs, FNGOs need to understand their peculiar needs based on the age of the MSE. For instance, the training needs of new MSEs might differ in terms of content and delivery from those MSEs which are old (De Mel et al., 2014). Business age was measured on a scale of 4 indicating the number of years the business had existed (2-5, 6-10, 11-15, and more than 15 years).

### **Industry Category**

The industry in which an MSE finds itself determines its resource needs, regulation and growth (Cooper et al., 1994). For instance, MSEs in the service industry are noted to use a fewer staff than those in the production-based category (Man, Lau, & Chan, 2002). This is the case because, in developing countries, MSEs scarcely use technology in their operations hence the high dependence on a lot of employees to undertake business activities. It has also been noted that, the industry in which an MSE finds itself can also affect its profitability (Parker & Praag, 2012).

Industry category was measured by asking respondents to classify their businesses according to eight (8) categories namely agriculture (1), manufacturing (2), construction (3), general services (4), general trading (5), hotels and restaurants (6), education (7), transport and distribution (8). General services represent business activities such as barber shops, hair salons, shoe repairs, communication services and such likes. General trading represents the sale of items such as foodstuffs, water, and firewood, construction category represents manufacturing of building blocks, the sale of cement and sale of other building materials. Transport and distribution category represents taxi owners and commercial drivers. Hotels and restaurant category represent guest houses and, food services. The education category represents private basic schools only.

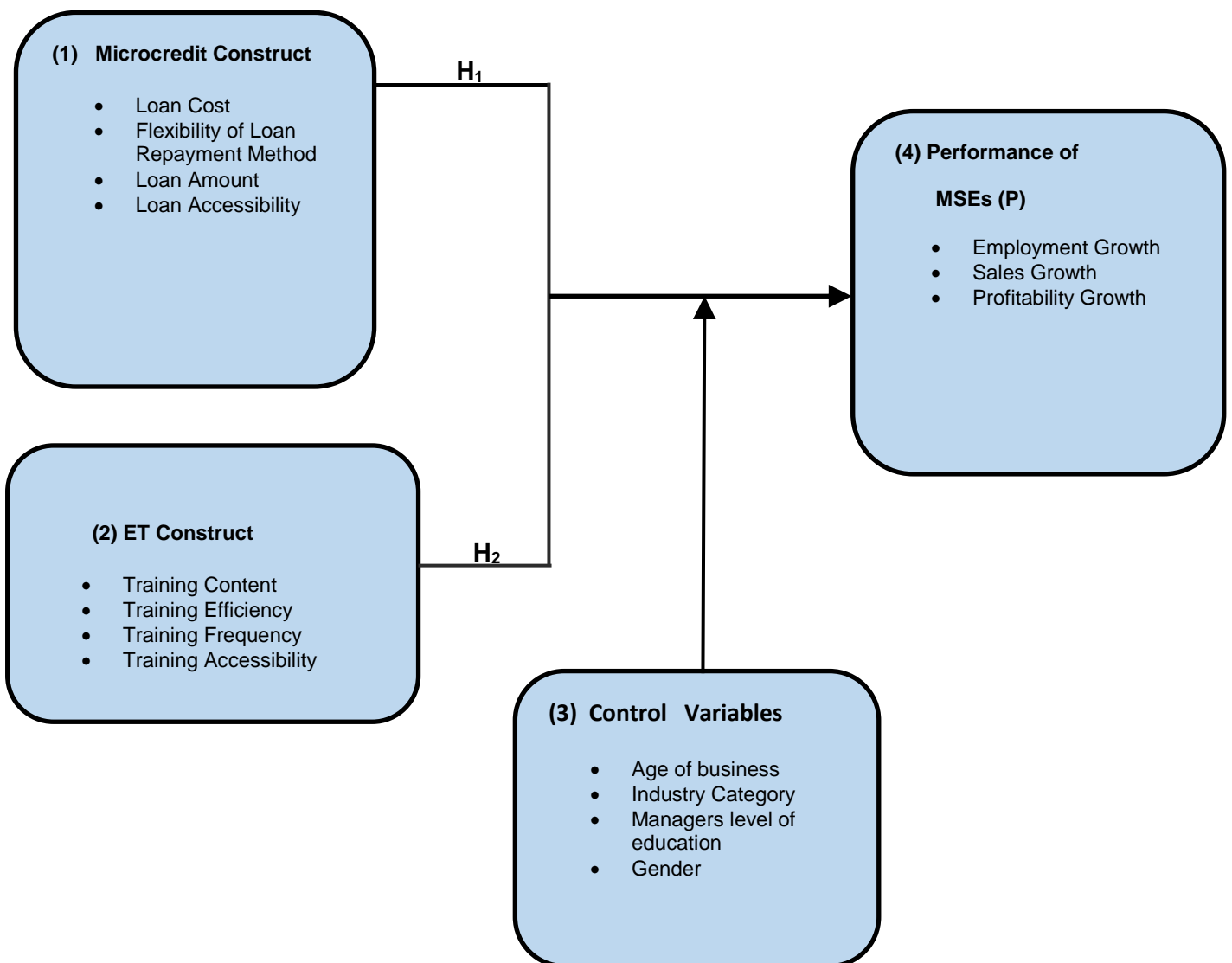
### **Manager's Level of Education**

Both general and specific educational background of an MSE manager could have an influence on the performance of the MSE (Cooper et al., 1994). Managers who have broad educational background with specific skills and knowledge such as in accounting, numeracy and marketing are known to have a better impact on their MSEs than those without (Newman et al, 2014). Miller (2014) argues that the

entrepreneur's characteristics which include his educational background have an important ramification on the future and success of the MSE. Therefore, the educational background of the MSE manager could influence MSEs' overall performance. Manager's level of education was measured using six categories of educational levels namely no formal education (1), primary school (2), secondary education(3), an undergraduate degree (4) and postgraduate degree(5).

### **Gender**

There is some agreement in the microfinance literature that, MC works better with women than men (Chowdhury & Chowdhury, 2011). This is because, in developing countries, women are seen to be more responsible for delivering welfare activities to the household than men (Guérin, Kumar, & Agier, 2013). Secondly, women are also noted to be more creditworthy in terms of paying back their loans than men (D'Espallier, Guérin, & Mersland, 2011). Therefore, in the delivery of MC and ET to MSEs by FNGOs, gender could influence the impact of such resources. Gender was measured as a dichotomous variable where 0 represents male and 1 represents female. Based on the constructs and variables discussed in chapter 5 and the various constructs defined above, a hypothesised conceptual model as shown in Figure 6.3 is developed to underpin this study.



**Figure 6.3: The Hypothesised Model for the impact of FNGO services on the Performance of MSEs in the Volta Region of Ghana**

### **6.7.5 Explanation of the Proposed Research Model**

The research model which underpins this study has two main constructs namely MC and ET. Both MC and ET are supposed to be delivered by FNGOs as a combined approach. ET is supposed to be delivered to MSEs without any additional cost to MSEs. Firstly, the constituents of MC such as the cost of loan, repayment flexibility, adequacy of loan amount and accessibility to the loan are important factors which make the delivery of MC to have the desired impact on MSE's performance. Secondly, the constituents of ET which includes training content, efficiency, frequency, and accessibility are important features of any ET programme which need to be considered in its delivery to MSEs. Controlling for firm characteristics such as gender, industry category, business age and managers level of education, it is expected that these two factors (MC and ET) would have a positive impact on the performance of MSEs in three main growth areas namely employment, sales and profitability growth. The summary of the formulated hypotheses is presented in Table 6.4 below.

**Table 6.4: Summary of Formulated Hypotheses**

	Hypotheses	
1	H1a	Loan cost is negatively related to the employment growth of MSEs
2	H1b	Loan cost is negatively related to the sales growth of MSEs
3	H1c	Loan cost is negatively related to the profitability growth of MSEs
4	H2a	Loan repayment flexibility is positively related to the employment growth of MSEs
5	H2b	Loan repayment flexibility is positively related to the sales growth of MSEs
6	H2c	Loan repayment flexibility is positively related to the profitability growth of MSEs
7	H3a	Loan adequacy is positively related to the employment growth of MSEs
8	H3b	Loan adequacy is positively related to the sales growth of MSEs
9	H3c	Loan adequacy is positively related to the profitability growth of MSEs
10	H4a	Loan accessibility is positively related to the employment growth of MSEs
11	H4b	Loan accessibility is positively related to the sales growth of MSEs
12	H4c	Loan accessibility is positively related to the profitability growth of MSEs
13	H5a	ET content is positively related to the employment growth of MSEs
14	H5b	ET content is positively related to the sales growth of MSEs
15	H5c	ET content is positively related to the profitability growth of MSEs
16	H6a	ET efficiency is positively related to the employment growth of MSEs
17	H6b	ET efficiency is positively related to the sales growth of MSEs
18	H6c	ET efficiency is positively related to the profitability growth of MSEs
19	H7a	ET frequency is positively related to the employment growth of MSEs
20	H7b	ET frequency is positively related to the sales growth of MSEs
21	H7c	ET frequency is positively related to the profitability growth of MSEs
22	H8a	ET accessibility is positively related to the employment growth of MSEs
23	H8b	ET accessibility is positively related to the sales growth of MSEs
24	H8c	ET accessibility is positively related to the profitability growth of MSEs



## **6.8 Research Instruments**

A research instrument is a tool used for collecting primary data for a study. According to Fowler (2014), research instruments are designed to measure attitudes, knowledge, and skill in a study. For this study, a questionnaire was used to collect both the quantitative and qualitative data from the selected MSEs.

### **6.8.1 The Survey Questionnaire**

A questionnaire is an instrument for collecting self-reported data or information from respondents by administering a set of question in a paper form. According to Polit and Beck (2012), questionnaires are a pre-developed set of questions which are administered by the researcher to collect responses from respondents to enhance the objectivity of statistical analysis. Yin (2009) asserts that questionnaires are the most suitable instrument for empirical research. It helps in collecting data from large respondents in different locations. The use of questionnaire also enables the researcher to collect adequate data on the same variables from a wider spectrum of the sample selected (Zahari, 2007).

The questionnaire used for the survey has five main sections involving open and closed-ended questions. A sample of the questionnaire is attached to this study as Appendix 4. Section 1 of the questionnaire dealt with demographic data on the respondents regarding gender, age, education, experience. Section 2 dealt with business characteristics of the MSEs engaged in the study. Section 3 assessed the extent to which the MSEs are provided with MC and the nature of the MC delivery by FNGOs. Section 4, assessed the nature of entrepreneurship training provided by FNGOs to MSEs in the region. Section 5 of the questionnaire assessed the performance of the MSEs in terms of employment, sales, and profitability. The open-

ended questions in the questionnaire allowed the respondents to give answers to their own views and words. It also enabled the researcher to explore various views that could not have otherwise been addressed through close-ended questions (Salant & Dillman, 1994). However, the close-ended questions used in the questionnaire allowed the respondents to choose from a given sets of alternative answers anchored with a Likert scale between 1 (strongly disagree), and 5 (strongly agree) where respondents were made to express their perception regarding the impact of MC and ET on the performance their various MSEs.

### **6.8.2 The Interview Questionnaire**

An interview is defined by Polit and Beck (2012) as a method for data collection in which an interviewer asks interviewee questions through face-to-face or telephone interactions. Interviews are flexible techniques for exploring deeper insights on a subject matter and are noted to have a higher response rate than surveys (Creswell, 2009). Brace (2004) indicates that interviews are considered the best method of exploring and collecting experiential narrative data which serve as a resource for a deeper and richer understanding of a phenomenon. However, interviews are said to have weaknesses. For instance, Brink (2012) finds that responses to interviews may be biased due to the presence of the researcher. Creswell (2009) also argue that interviews are time-consuming and they do not ensure the anonymity of the interviewees and therefore may prevent interviewees from providing relevant data that are confidential in nature. Despite these weaknesses about interviews, the researcher is of a strong conviction that the data obtained were relevant, provided a clearer and a holistic picture of the impact of MC and ET on the performance of MSEs.

The interview process is the second part of the mixed strategy adopted in this study. In addition to the survey questionnaire, the researcher employed an interview guide or questionnaire to conduct the interview in seeking clarifications to certain findings in the quantitative data collection stage. The interview guide is attached to this study as Appendix 5. The interviews helped in exploring the views of the 10 MSE managers on the impact of both MC and ET on their MSEs. Writing pads, pens and a tape recorder were the main tools used. It is important to state that the 10 interviewees engaged in the qualitative study were not part of the 720 MSEs who were sampled for the quantitative study.

The interview questionnaire is made up of 3 sections. Section A dealt with the provision of MC to MSE. Specific questions include adequacy of the loan granted, accessibility to MC, the cost of MC and the flexibility of the loan repayment. Section B dealt with the provision of ET. Specific questions include accessibility to ET, the efficiency of the training programmes, content and frequency of entrepreneurship programmes. Section C dealt with MSE performance where questions regarding employment generation, sales growth and profitability were asked.

## **6.9 Data Collection Procedure**

To achieve the objectives of this study, the data collection was in two main stages. Stage one involves the quantitative data collection using a self-administered questionnaire and stage two is the interview stage where qualitative data was collected using a questionnaire. The qualitative data was collected three weeks after the quantitative data collection to allow the quantitative data collected to serve as an input into the qualitative data collection stage.

### **6.9.1 Quantitative Data Collection**

Prior to the quantitative data collection, letters of introduction from the University of Wolverhampton Business School were sent to the CEOs of the four FNGOs operating in the Volta region which made a significant impact on the response rate. With the help of the FNGOs, the researcher contacted the managers of the MSEs and visited them individually either at their places of work or at their group meetings to administer the questionnaire. In some cases, the CEOs of the FNGOs went out with the researcher in locating some of the respondents. Most of the questionnaires were completed instantly while other respondents who were not ready to complete the questionnaires instantly were given one week to respond to the questionnaire which was later collected by the researcher.

### **6.9.2 Qualitative Data Collection**

After three weeks of the quantitative data collection and analysis, the qualitative data was collected. The meetings were pre-arranged through a telephone call where the researcher agreed with the respondents the venue and the time for the meeting. A prior meeting arrangement was necessary to establish rapport with the MSE managers, and to obtain their consent for the interview as well as the consent to record them during the interviews. With the permission of the interviewees, the various interviews were recorded with a portable voice recorder. To encourage and facilitate the flow of information from the interviewees, the researcher employed effective communication during the interview processes. These include listening attentively to the interviewees while they were talking, nodding, keeping close-eye contact, and clarifying the questions for better understanding of the interviewees. Also, to ensure that interviewees express their views freely, they were assured of

their anonymity and that their personal identity would not be revealed in the study or anywhere without their consent. To ensure this, acronyms are used in referring to them. For instance, Business Owner 1 up to Business Owner 10 are used to capture their responses in this study.

### **6.10 Pilot Study**

Prior to the quantitative data collection, the researcher conducted a pilot study using 30 MSEs who are not part of the main MSEs selected for this study. Brink (2012) defines a pilot study as a mini-scale version of a major study. The purpose of the pilot study is to pre-test the questionnaire to obtain the necessary information to improve the feasibility of the study. The pilot study helped to ensure the effectiveness of the questionnaire as well as the likely difficulties that the respondents might encounter in answering the questionnaire. During the pilot study, certain words and phrases were found to be difficult to comprehend by few of the respondents. As a result of this, changes were effected accordingly before the main quantitative study was started. Another purpose of the pilot study is also to test the internal consistency of the quantitative data collection instrument. The results of the pilot study were therefore checked for internal consistency using Cronbach's alpha in SPSS. The results obtained from the pilot study revealed that all the constructs were above the Cronbach's  $\alpha > 0.7$  threshold. Those constructs with low reliability were reconstructed using additional items. Table 6.5 below provides the reliability test for the constructs used in the pilot study.

**Table 6.5: Reliability Statistics for Pilot Study**

<b>Construct and Variables</b>	<b>Cronbach's Alpha</b>	<b>Cronbach's Alpha Based on Standardized Items</b>	<b>No. of Items</b>
<b>Microcredit:</b>			
Loan Amount	0.755	0.759	3
Loan Accessibility	0.761	0.772	3
Loan Cost	0.709	0.724	3
Flexibility of Payment	0.786	0.792	3
<b>Entrepreneurship Training:</b>			
Training Content	0.977	0.980	11
Training Efficiency	0.954	0.957	5
Training Frequency	0.852	0.864	4
Training Accessibility	0.912	0.943	2

## **6.11 Data Analysis Technique**

Data analysis according to Burns and Grove (2007) is the process used to summarise, categorise, and order data to make meaningful outcome from it. The following subsections explain the analysis of both the quantitative and qualitative data obtained.

### **6.11.1 Quantitative Data Analysis**

The data obtained from the questionnaire were analysed using descriptive statistics, inferential and regression analysis. The Statistical Package for Social Science (SPSS) version 20 was used to process the data. To ensure a better understanding of the data analysed, the results were organized and presented visually using tables. The software enabled the discovery of relationships and differences in the data

(Antonius, 2003). To measure the relationships between the variables, MC and ET were used as the independent variables while MSE performance (employment, sales and profitability) were used as the dependent variables. Multiple linear regression was employed in analysing the quantitative data because it is assumed that this study has met all the seven assumptions of the multiple linear regression model which is further discussed in chapter seven (Poole & O'Farrell, 1971). Controlling for gender, industry category, manager's level of education and business age, the Pearson's correlation coefficient was used to determine the relationship between MC variables (loan repayment flexibility, loan cost, loan amount and loan accessibility), ET variables (training content, training efficiency, training frequency and training accessibility) and MSE performance (employment sales and profitability growth) variables.

### **6.11.2 Qualitative Data Analysis**

The findings in the quantitative analysis led the researcher to analyse the data collected at the second phase of the triangulation. The interviews conducted with the 10 MSE managers were based on the conceptual framework discussed in chapter 5. Employing a thematic analysis (Boyatzis, 1998) and also based on the survey, core themes were identified. According to Jones, Coviello and Tang (2011:648), a thematic analysis refers to the 'mapping out' of various themes which relates to answering a specific research question from the responses reviewed in an interview in order to generate meaningful outcomes. Therefore, the data were analysed to achieve the research objectives as enumerated in Chapter 1. On the basis of these core themes such as microcredit, entrepreneurship training, sales, profitability and employment growth, the interview questionnaire was designed. The audio recorded interviews were also transcribed and processed by the researcher. Three of the

interviews which were done in the Ewe language was translated into English by the researcher. After processing the interview data, a thematic coding was used to identify various sub-themes such as loan repayment flexibility(LRP), loan cost (LC), loan amount(LA) loan accessibility (LACC), training content (ETCON),training efficiency (ETEFF),training frequency (ETFREQ) training accessibility (ETACC, sales growth(SG),employment growth(EG) and profitability growth(PG). The analysis of the qualitative data based on these sub-themes helped the researcher to understand the 'how' question which was not answered with the quantitative analysis. The results of both the qualitative and quantitative enabled the researcher to present a validated model.

Bazeley (2013) states that the analysis of data from interviews begins with listening to the responses of the interviewees' verbatim which should be followed by transcribing, reading and re-reading. From these explanations, the analysis of the qualitative data was done through the following processes:

- i. **Oral data processing** - The researcher played back and listened to the recorded audio tape of the interviews repeatedly.
- ii. **Data transcription** - Transcribing of the recorded interview results. This was to reproduce verbatim the responses of the interviewees to the questions posed by the researcher.
- iii. **Reading and notes making** –The transcribed data were individually read and while reading, the researcher wrote down some key issues relating to the topic.



- iv. **Clustering** – The similar topics and issues were put together in a tabular form to fit into addressing the main subject under study.
- v. **Thematic analysis**–Themes which run through the responses repeatedly were systematically analysed to generate meaningful outcomes.

### 6.11.3 Survey Questionnaire Items

The questionnaire items that were used in measuring the MC, ET and P constructs are presented in Tables 6.6, 6.7 and 6.8 respectively.

**Table 6.6 Questionnaire Items for Microcredit**

Questionnaire Items for Microcredit
<p><b>Loan Cost(LOCOST)</b> (Egyir, 2010; Fatoki &amp; Odeyemi, 2010 Kwakyi, 2012)</p> <p>The interest charged on the loan is affordable (cost 16a)</p> <p>The Processing fees charged on the loan is bearable (cost 16b)</p> <p>Loan-deposit(lien) required is affordable(16c)</p> <p><b>Loan Amount(LOAM)</b> (Kwakyi, 2012; Baklouti and Abdelfettah, 2013; Donou-Adonsoua and Sylwester, 2016; Nielsen, 2016)</p> <p>The Loan amount acquired was sufficient for the business (14a)</p> <p>Satisfied with the loan amount granted to the business over the past 3-year period(14b)</p> <p>Loan amount granted was less than the amount applied(14c)</p> <p><b>The flexibility of Loan Repayment Method: (LOFLEX):</b> (Wright, 2002; Meyer, 2002; Duan et al.,2009).</p> <p>The loan repayment schedule is very flexible (Flexibility17a)</p> <p>The loan repayment amount is affordable (Flexibility17b)</p> <p>The loan term is convenient to my business needs(17c)</p> <p><b>Loan Accessibility (LOACC):</b> (Snodgrass and Biggs, 1996; Lash, 2008;Fatoki &amp; Odeyemi, 2010; Abor &amp; Quartey, 2010)</p> <p>The requirements for accessing the loan was well understood(15a)</p> <p>The application process was not cumbersome (15b)</p> <p>Over the past three years, loan applications made to your FNGO was timely approved(15c)</p>

**Table 6.7 Questionnaire Items for ET**

Questionnaire Items for Entrepreneurship Training
<p><b>Training Content (ETCON):</b> (Jantan et al.,2004; De Mel et al. 2014; Sabella &amp; Analoui,2015)</p> <p>Training included lessons on new management methods (Content24a)</p> <p>Training included lessons on management accounting and financial management (Content24b)</p> <p>Training included lessons on customer relationship management methods (Content24c)</p> <p>Training included lessons on the use of management information systems (Content24d)</p> <p>Training included lessons on the acquisition of leadership and teamwork skills (Content24e)</p> <p>Training included lessons on creativity and problem-solving skills (Content24f)</p> <p>Training included lessons on the development of communication skills (Content24g)</p> <p>Training included lessons on workplace safety (Content24h)</p> <p>Training included lessons on the use of machinery (Content24i)</p> <p>Training included lessons on service delivery methods(Content24j)</p> <p>Training included lessons on new products and services development(Content24k)</p> <p><b>Training Efficiency (ETEF):</b> (Lincoln &amp; Duñcet,1995;Sharma,2014; Valdivia,2015)</p> <p>Training was delivered at no/less cost (Efficiency25a)</p> <p>Training was timely (Efficiency25b)</p> <p>Training was well-delivered and understood (Efficiency25c)</p> <p>Training was beneficial for my personal development (Efficiency25d)</p> <p>Training resolved my current business challenges (Efficiency25e)</p> <p><b>Training Frequency (FREET) :(</b> Newkirk-Moore &amp; Bracker, 1998; Rauch et al. ,2005; Muraguri et al., 2016)</p> <p>Satisfied with the frequency of training provided by your FNGO (22a)</p> <p>The frequency of training does not disrupt your scheduled business activities (22b)</p> <p>The Frequency of training provided by FNGOs enables knowledge application(22c)</p> <p>The frequency of the training provided by FNGOs encourages your participation in training(22d)</p> <p>The frequency of the training provided by FNGOs ensures an update of current issues in your in your business (22e).</p> <p><b>Training Accessibility(ACCET):</b> (Al-Madhoun,2006; Neirotti &amp; Paolucci, 2013; Kambwale et al.,2015)</p> <p>It is difficult to obtain ET from FNGO (Accessibility 21a)</p> <p>Over the past three (3) years training provided by your FNGO has been satisfactory (Accessibility 21b)</p>

**Table 6.8 Questionnaire Items for MSE Performance (P)**

Performance Indicators					
<b>MSE Performance (P):</b> (Storey, 1994; Fatoki, 2011; Blackburn et al., 2013; Le & Raven, 2015)					
<b>Employment</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Number of full-time skilled employees(27a)					
Number of full-time unskilled employees(27b)					
<b>Sales (28a)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Profitability (28b)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>

## 6.12 Model Specification

Six (6) different regression models (equations) have been developed from the conceptual model. The first three models sought to measure the influence of MSE characteristics (gender, manager's level of education, industry category and age of business) on MSE performance (employment, sales, and profitability). Models 4 to 6 measure the impact of MC and ET on MSE performance. These equations are presented in Table 6.9 below.

**Table 6.9 Model Specification for Dependent Variables**

No.	Regression Equations	Item Measured
1	$EMP = \alpha + \beta_1GEN + \beta_2EDU + \beta_3IND + \beta_4AGE + \varepsilon$	Employment Growth*
2	$SALES = \alpha + \beta_1GEN + \beta_2EDU + \beta_3IND + \beta_4AGE + \varepsilon$	Sales Growth*
3	$PROFIT = \alpha + \beta_1GEN + \beta_2EDU + \beta_3IND + \beta_4AGE + \varepsilon$	Profitability Growth*
4	$EMP = \alpha + \beta_1GEN + \beta_2EDU + \beta_3IND + \beta_4AGE + \beta_5LOFLEX + \beta_6LOCOS + \beta_7LOAM + \beta_8LOACC + \beta_9ETCON + \beta_{10}ETEF + \beta_{11}FREET + \beta_{12}ACCET + \varepsilon$	Employment Growth*

5	$SALES = \alpha + \beta_1 GEN + \beta_2 EDU + \beta_3 IND + \beta_4 AGE + \beta_5 LOFLEX + \beta_6 LOCOS + \beta_7 LOAM + \beta_8 LOACC + \beta_9 ETCON + \beta_{10} ETEF + \beta_{11} FREET + \beta_{12} ACCET + \varepsilon$	Sales Growth*
6	$PROFIT = \alpha + \beta_1 GEN + \beta_2 EDU + \beta_3 IND + \beta_4 AGE + \beta_5 LOFLEX + \beta_6 LOCOS + \beta_7 LOAM + \beta_8 LOACC + \beta_9 ETCON + \beta_{10} ETEF + \beta_{11} FREET + \beta_{12} ACCET + \varepsilon$	Profitability Growth*

1. \*Employment is generated by the constant term ( $\alpha$ ) in addition to Gender, Education, Industry category and Age of MSE and the error term ( $\varepsilon$ )
2. \*Sales is generated by the constant term ( $\alpha$ ) in addition to Gender, Education, Industry category and Age of MSE and the error term ( $\varepsilon$ )
3. \*Profitability is generated by the constant term ( $\alpha$ ) in addition to Gender, Education, Industry category and Age of MSE and the error term ( $\varepsilon$ )
4. \*Employment is generated by the constant term ( $\alpha$ ) in addition to Gender, Education, Industry category, Age of MSE, loan flexibility, Loan cost, Loan amount, loan accessibility, ET content, ET efficiency, ET Frequency, ET Accessibility, and the error term ( $\varepsilon$ )
5. \*Sales is generated by the constant term ( $\alpha$ ) in addition to Gender, Education, Industry category, Age of MSE, loan flexibility, Loan cost, Loan amount, Loan accessibility, ET content, ET efficiency, ET Frequency, ET Accessibility, and the error term( $\varepsilon$ )
6. \*Profitability is generated by the constant term ( $\alpha$ ) in addition to Gender, Education, Industry category, Age of MSE, Loan flexibility, Loan cost, Loan amount, Loan accessibility, ET content, ET efficiency, ET Frequency, ET Accessibility, and the error term( $\varepsilon$ )

**Table 6.10 Explanation of Model Symbols**

	Symbol	Explanation
1	<b>EMP</b>	Employment growth
2	<b>SALES</b>	Sales growth
3	<b>PROFIT</b>	Profitability growth
4	<b><math>\alpha</math></b>	Constant term
5	<b><math>\beta_1</math> to <math>\beta_4</math></b>	regression coefficients
6	<b>GEN</b>	Gender
7	<b>EDU</b>	Owner/Manager's level of Education
8	<b>IND</b>	Industry Category

9	<b>AGE</b>	Age of Business
10	<b>LOFLEX</b>	Loan Flexibility
11	<b>LOCOS</b>	Loan cost
12	<b>LOAM</b>	Loan Amount
13	<b>LOACC</b>	Loan Accessibility
14	<b>ETCON</b>	ET Content
15	<b>ETEFF</b>	ET Efficiency
16	<b>FREET</b>	ET Frequency
17	<b>ACCET</b>	ET Accessibility

### 6.13 Validity Measurement for MC and ET

In adopting a suitable research design, research design validity is important (Abowitz & Toole, 2010; Creswell, 2014). Validity refers to the ability of a research design to measure exactly what it is intended to measure (Blumberg et al., 2008). In other words, Polit and Beck (2012) state that validity is the most genuine, credible, and representative truth of a research process and outcome. In measuring the quality of a research design, Yin (2009) proposes four main tests namely *construct validity*, *internal validity*, *external validity*, and *reliability*. Whilst, construct validity refers to the choice of the correct measures for the concepts under investigation, internal validity seeks to establish or explain the causality of relationships. External validity generally specifies the study domain of a piece of research.

To achieve validity in this study, the researcher ensured that reliability is achieved first. As Lincoln and Guba (1994) states, there cannot be validity without reliability. Validity in this study was achieved through content validity and construct validity. With content validity, the researcher ensured that the research instruments used for

collecting the data represent all the aspects of the study variables being measured. The questionnaire was developed in line with the objectives after a careful study of other related studies. Further to this, the questionnaire was pretested with 30 MSE respondents to assess the suitability of the questionnaire.

#### **6.14 Reliability Measurement of MC and ET Constructs**

Reliability refers to the replicability of a research design with the aim of obtaining the same results (Blumberg et al., 2008). Reliability also refers to the consistency of research findings or results if the research is repeated over a period (Bazeley, 2013).

Reliability in this study was achieved by measuring the internal consistency of the variables being used in measuring MC and ET. Statistically, reliability analysis is used to test the internal consistency of the constructs being used. Following Anderson and Gerbing (1988) a reliability test was conducted on both the MC and ET. The study utilised Cronbach's  $\alpha$  to test the reliability and internal consistency of the variables using SPSS. The results obtained showed that both the MC and ET constructs had Cronbach's alpha greater than 0.70 indicating a higher reliability (Hair et al., 2010). Tables 6.11 and 6.12 below shows the summary of the reliability test for the MC and ET constructs.

**Table 6.11 Summary of Reliability Test for MC Constructs**

Factors	Cronbach's Alpha	Cronbach's Alpha based on standardised Items	No. of Items	Cronbach's Alpha if the item is deleted
<b>Loan Cost</b>	0.887	0.893	3	
Items	1 Affordable interest charges			0.857
	2. Bearable processing fees			0.768
	3. Affordable loan deposit			0.889
<b>Loan Flexibility</b>	0.886	0.888	3	
Items	1. 1. Flexible loan schedule			0.934
	2. Affordable loan repayment			0.782
	3. Convenient loan term			0.791
<b>Loan Amount</b>	0.865	0.864	3	
Items	1. The loan was sufficient for business			0.719
	2. I am satisfied with loan amount granted to me over the 3 years period			0.762
	3. The loan amount granted was less than applied			0.924
<b>Loan Accessibility</b>	0.739	0.748	3	
	1. I understand requirements for accessing loan			0.731
	2. Loan application process not cumbersome			0.739
	3. Timely approval of the loan			0.682

**Table 6.12 Summary of Reliability Test for ET**

Factors	Cronbach's Alpha	Cronbach's Alpha based on standardised Items	No. of Items	Cronbach's Alpha if the item is deleted
<b>Training Content</b>	0.977	0.983	11	
Items	1. Training included lessons on new management methods			0.973
	2. Training included a lesson on financial accounting			
	3. Training included a lesson on customer relationship management			0.973
	4. Training included a lesson on the use of Management Information Systems			0.973
	5. Training included a lesson on the use of Management Information Systems			0.972
	6. Training included a lesson on creativity and problem-solving skills			0.972
	7. Training included a lesson on the development of interpersonal			0.972
	8. Training included a lesson on workplace safety			0.973
	9. Training included a lesson on the use of machinery			0.974
	10. Training is beneficial for my personal development			0.973
	11. Training resolved my current business challenges			0.975
<b>Training Efficiency</b>	0.926	0.931	5	
Items	1. Training is cost-effective			0.899
	2. Training is timely			
	3. Training is well-delivered and understood			0.892
	4. Training is beneficial for my personal development			0.892
	5. Training resolved my current business challenges			0.946
<b>Training Frequency</b>	0.897	0.900	5	



Items	1. Training Frequency from FNGOs is satisfactory			0.869
	2. The frequency of training does not disrupt my scheduled business activities			
	3. The frequency of training enables knowledge application			0.870
	4. The frequency of training encourages my participation in training			0.867
	5. The frequency of training ensures my update of business-related knowledge			0.892
Training Accessibility	0.934	0.934	2	
	1. It is difficult to access training from FNGOs			0.932
	2. Training obtained from FNGOs has been satisfactory			0.934

## 6.15 Exploratory Factor Analysis

Following Anderson and Gerbing (1988), factor analysis was conducted to check the factorial structure of each construct. It is suggested that factors with low factor loadings ( $< 0.50$  for new models,  $< 0.60$  for existing models) should be deleted first and data recalculated until a higher value of 0.7 and above is achieved (Hancock & Mueller, 2010). The sections below discuss the exploratory factor analysis for both MC and ET constructs.

### 6.15.1 Exploratory Factor Analysis for MC Construct

A principal component analysis with varimax rotation was executed to examine the structure of MC. A total of twelve (12) factors were analysed out of which four factors with an Eigenvalue greater than 1.000 arose and were consistent with the proposed constructs respectively representing *loan cost*, *flexibility of loan repayment method*, *loan amount* and *loan accessibility* (Kaiser-Meyer-Olkin statistic: 0.697; Bartlett Test of Sphericity:  $\chi^2 = 3,473.472$ ,  $df = 66$ ,  $p = 0.000$ ). The four factors explained a total of

77.991 percent of the variance. From the analysis, LOCOST emerged as the most important factor with an Eigenvalue of 3.152, explaining 26.265% of the variance in MC and LOAM is the least important factor with an Eigenvalue of 1.562 and explaining 13.014% of the variance in MC. Items were only considered to have loaded properly if a loading of 0.200 or above on a factor and the difference between the main loading and other cross-loadings of 0.300 is observed (Howell et al., 2005). To achieve validity of constructs, the measurement was done in ensuring that sufficient correlation existed among the construct variables (Hair et al., 2003). According to the results, the Bartlett Sphericity Test showed that there were sufficient correlations ( $\text{sig} = 0.000$ ;  $\text{df} > 0.7$ ) existing among all the variables (Burns & Burns, 2008). Also, the Kaizer-Meyer-Olkin (KMO) values obtained from the factor analyses were greater than 0.6 which exceeded the recommended minimum value of 0.50 (Hair et al., 2006). In addition, the PCA also included for inspection the scree plot which also visibly show the number of factors to be included in the analysis (Weaver & Maxwell, 2014). Based on the results obtained from the factor analysis, only items that had significant loadings were finally used in the regression analysis in testing the hypotheses of the study (Parasuraman et al., 2004). Tables 6.12 and 6.13 below shows the items of the MC construct, loadings and cross-loadings for each item on factors and well as the total variance explained.

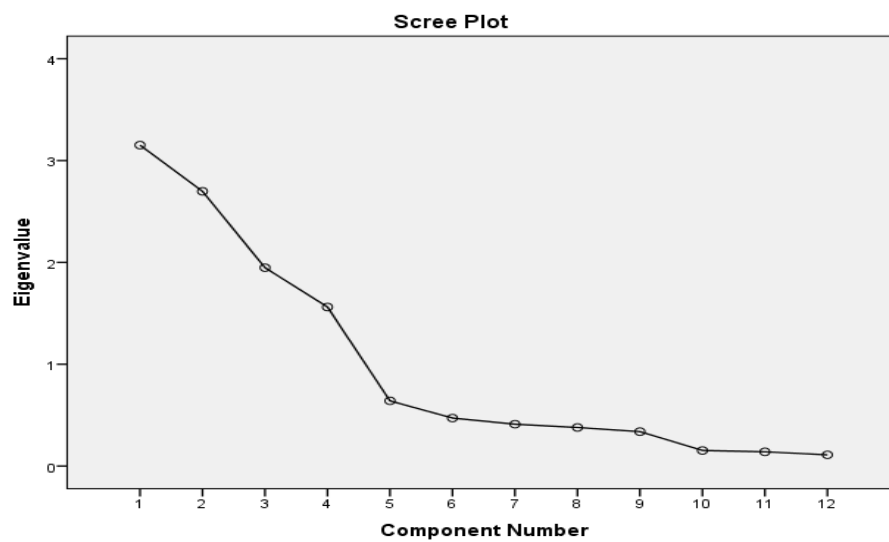
**Table 6.13 Summary of Factor Analysis for Microcredit**

Rotated Component Matrix				
	Component			
	Factor 1	Factor 2	Factor 3	Factor 4
Loan was sufficient for business	0.127	-0.059	0.929	0.006
I am satisfied with loan amount granted to me over the 3 years period	0.104	0.017	0.916	-0.029
The loan amount granted was less than applied	0.032	-0.138	0.788	-0.111
I understand requirements for accessing loan	-0.078	0.061	-0.018	0.762
Application process not cumbersome	-0.034	0.056	-0.056	0.871
Timely approval of loan	-0.059	0.120	-0.055	0.787
Affordable interest charges	0.908	0.026	0.084	0.074
Bearable processing fees	0.931	0.082	0.080	-0.131
Affordable loan deposit	0.859	0.024	0.101	-0.148
Flexible loan schedule	0.026	0.831	0.028	0.128
Affordable loan repayment	0.058	0.928	-0.107	0.078
Convenient loan term	0.045	0.927	-0.119	0.051
Eigenvalues	3.152	2.698	1.948	1.562
% of Variance Explained	26.265	22.481	16.232	13.014
Kaiser-Meyer-Olkin Measure of Sampling Adequacy. 0.697				
Bartlett's Test of Sphericity				
Approx. Chi-Square	3473.472			
df	66			
Sig	0.000			
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 5 iterations.				

**Table 6.14 Factor Extraction for Microcredit**

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.152	26.265	26.265	3.152	26.265	26.265	2.473	20.607	20.607
2	2.698	22.481	48.745	2.698	22.481	48.745	2.463	20.525	41.132
3	1.948	16.232	64.977	1.948	16.232	64.977	2.381	19.842	60.974
4	1.562	13.014	77.991	1.562	13.014	77.991	2.042	17.017	77.991
5	.640	5.335	83.326						
6	.471	3.926	87.252						
7	.411	3.422	90.675						
8	.379	3.155	93.830						
9	.338	2.814	96.644						
10	.153	1.274	97.918						
11	.140	1.163	99.081						
12	.110	.919	100.000						

Extraction Method: Principal Component Analysis.



**Figure 6.3: Scree Plot of MC Factors**

## 6.15. 2 Exploratory Factor Analysis for ET Construct

A principal component analysis with varimax rotation was executed to examine the factorial structure of ET. A total of twenty-three (23) factors were analysed out of which four with an Eigenvalue greater than 1.000 arose and were consistent with the proposed constructs respectively representing *training content*, *training efficiency*, *training frequency* and *training accessibility* (Kaiser-Meyer-Olkin statistic: 0.878; Bartlett Test of Sphericity:  $\chi^2 = 18,255.565$ ,  $df = 253$ ,  $p = 0.000$ ). The four factors explained a total of 82.780 % of the variance. From the analysis, **ETCON** emerged as the most important factor with an Eigenvalue of 9.759, explaining 42.4% of the variance in ET and **ACCET** is the least important factor with an Eigenvalue of 1.766 and explaining 7.6% of the variance in ET. According to the results, the Bartlett Sphericity Test showed that there were sufficient correlations ( $\text{sig} = 0.000$ ;  $df > 0.7$ ) existing among all the variables (Burns & Burns, 2008). Also, the Kaizer-Meyer-Olkin (KMO) values obtained from the factor analyses were greater than 0.6 which exceeded the recommended minimum value of 0.50 (Hair et al., 2006). In addition, the PCA also included for inspection the scree plot which also visibly show the number of factors to be included in the analysis (Zhu & Ghodsi, 2006). Based on the results obtained from the factor analysis, only items that had significant loadings were finally used in the regression analysis in testing the hypotheses of the study (Lewis-Beck, 1994). Items were only considered to have loaded properly if a loading of 0.200 or above on a factor and the difference between the main loading and other cross-loadings 0.300 is observed (Howell et al, 2005). Table 6.14 and 6.15 below shows the items of the ET construct as well as the loadings and cross-loadings for each item on factors.

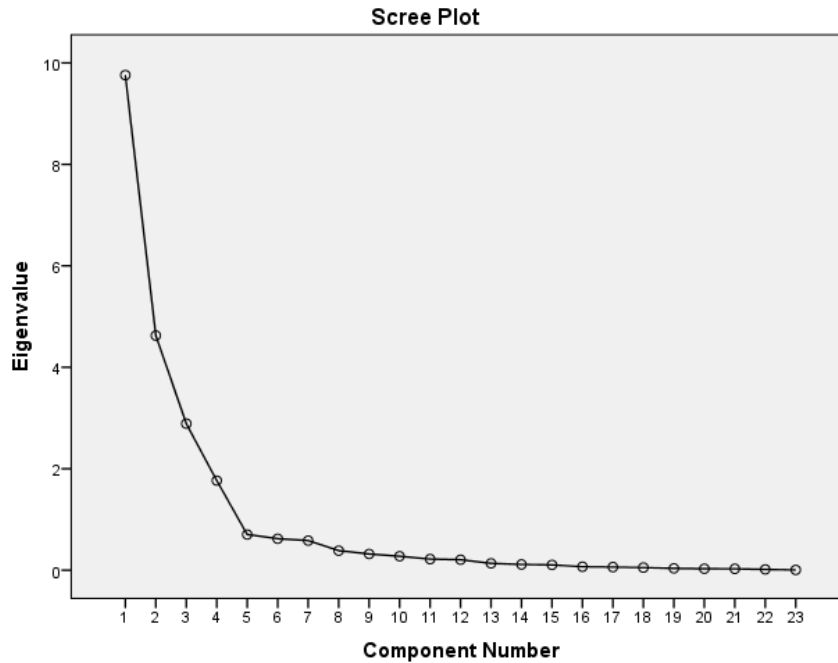
**Table 6.15 Summary of Factor Analysis for Entrepreneurship Training**

<b>Rotated Component Matrix</b>				
	<b>Component</b>			
	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>	<b>Factor 4</b>
It is difficult to access training from FNGOs	0.012	0.001	0.081	<b>0.963</b>
Training obtained from FNGOs has been satisfactory	0.092	0.019	0.172	<b>0.939</b>
Training Frequency from FNGOs is satisfactory	0.092	0.051	<b>0.841</b>	-0.004
The frequency of training does not disrupt my scheduled business activities	0.098	0.071	<b>0.867</b>	-0.012
Frequency of training enables knowledge application	0.074	0.081	<b>0.862</b>	0.011
Frequency of training encourages my participation in training	0.052	0.113	<b>0.843</b>	0.106
Frequency of training ensures my update of business-related knowledge	0.067	0.136	<b>0.755</b>	0.245
Training included lessons on new management methods	<b>0.637</b>	-0.026	0.061	0.009
Training included lesson on financial accounting	<b>0.955</b>	-0.024	0.081	0.089
Training included lesson on customer relationship management	<b>0.964</b>	-0.037	0.089	0.071
Training included lesson on the use of Management Information Systems	<b>0.955</b>	-0.041	0.091	0.095
Training included lesson on leadership and teamwork skills	<b>0.973</b>	-0.011	0.093	0.069
Training included lesson on creativity and problem-solving skills	<b>0.974</b>	-0.019	0.088	0.068
Training included a lesson on the development of interpersonal communication skills	<b>0.975</b>	-0.032	0.061	0.048
Training included lesson on workplace safety	<b>0.958</b>	-0.077	0.026	-0.046
Training included lesson on use of machinery	<b>0.934</b>	-0.068	0.041	-0.023
Training included lesson on service delivery methods	<b>0.953</b>	-0.066	0.030	-0.041
Training included lesson on new product and service innovation	<b>0.873</b>	-0.057	0.020	-0.073
Training is cost-effective	-0.066	<b>0.842</b>	0.129	-0.048
Training is timely	-0.088	<b>0.916</b>	0.100	0.078
Training is well-delivered and understood	-0.100	<b>0.938</b>	0.118	0.047
Training is beneficial for my personal development	-0.095	<b>0.933</b>	0.073	-0.044
Training resolved my current business challenges	0.052	<b>0.761</b>	0.038	0.008
<b>Eigenvalues</b>	<b>9.759</b>	<b>4.625</b>	<b>2.888</b>	<b>1.766</b>
<b>% of Variance Explained</b>	<b>42.432</b>	<b>20.111</b>	<b>12.557</b>	<b>7.680</b>

<b>Kaiser-Mayer-Olkin Measure of Sampling Adequacy</b>	0.878
<b>Bartlett's Test of Sphericity</b>	
Approx. Chi-Square	18255.565
df	253
Sig.	0.00
Extraction Method: Principal Component Analysis.	
Rotation Method: Varimax with Kaiser Normalization.	
a. Rotation converged in 5 iterations.	

**Table 6.16 Factor Extraction for Entrepreneurship Training**

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.759	42.432	42.432	9.759	42.432	42.432	9.537	41.466	41.466
2	4.625	20.111	62.542	4.625	20.111	62.542	3.948	17.163	58.629
3	2.888	12.557	75.100	2.888	12.557	75.100	3.618	15.731	74.360
4	1.766	7.680	82.780	1.766	7.680	82.780	1.937	8.420	82.780
5	.703	3.057	85.837						
6	.621	2.702	88.539						
7	.584	2.539	91.078						
8	.385	1.674	92.751						
9	.320	1.390	94.141						
10	.275	1.197	95.338						
11	.219	.953	96.291						
12	.206	.896	97.188						
13	.135	.585	97.773						
14	.113	.491	98.264						
15	.105	.455	98.719						
16	.069	.299	99.017						
17	.061	.266	99.284						
18	.052	.224	99.508						
19	.036	.158	99.666						
20	.029	.125	99.791						
21	.027	.117	99.908						
22	.016	.069	99.977						
23	.005	.023	100.000						
Extraction Method: Principal Component Analysis.									



**Figure 6.4 Scree Plot for ET Factors**

## 6.16 Ethical Considerations

Ethical considerations in research prescribe the understanding that all stakeholders engaged in a piece of research should be dealt with using maximum care. These stakeholders usually include the research participants, the researcher, and the funding institution. According to Gregory (2003), when humans are used in a research as participants, maximum care must be observed to protect the rights and dignities of those participants. Therefore, in observing and ensuring ethical issues the following factors were considered:

- i. **Free from harm** – No physical or psychological harm was experienced during the study. The respondents and interviewees participated in the study at their own place of convenience and safety (offices). Questions were asked in simple words to ensure understanding and the respondents and interviewees



were made to express themselves freely without any compulsion from the researcher.

- ii. **Freedom to participate** – The research participants were given the free will to participate in the study. Their consents were sought and they were given the right to exclude themselves from the study.
- iii. **Confidentiality** – The research participants were assured that all information provided for this study shall be treated with the highest confidentiality as much as possible. And that it shall be used purely for an academic endeavour and not for any financial gain. For this reason, they were not made to give their names either orally or in writing. With the interviewees, codes or acronyms were used in referring to them in the study.
- iv. **Academic credibility** – Where ideas, knowledge or materials of other researchers were used, appropriate acknowledgements were given accordingly in the form of references.

Ethical research considerations such as seeking consent, and collecting sensitive information, maintaining confidentiality, avoiding bias, avoiding incorrect reporting, the use of appropriate research methodology and the appropriate use of the research information were observed throughout the course of this study and will be maintained thereafter (Denscombe, 2007). This research was done using the highest form of ethical considerations and standards bearing in mind that, institutional information and data is an asset and gives a competitive urge to MSEs and FNGOs alike and such information would not be divulged to third parties without their consent. There will also be no disclosure of respondent identities in any other academic endeavour such as in a publication. Finally, ethical approval was also

obtained from the University of Wolverhampton Faculty of Social Sciences Ethical Committee prior to the field work in Ghana (see appendix 2).

### **6.17 Chapter Summary**

The research design, approach and strategy adopted for this study have been explained in this chapter. The target population and the sampling techniques have also been discussed. The sources of data and the design of the data collection instrument have also been addressed in this chapter. Both the conduct of the pilot study as well as data collection processes of the main study have also been explained for the purposes of replicability. The various data analyses methods for both the quantitative and the qualitative study have also been explained to indicate how the research results were obtained. Moreover, the reliability and validity procedures for this study has also been explained to establish credence for this study. Both the reliability test and exploratory factor analysis were also conducted. Finally, the ethical considerations that were observed during the study were also explained. Having provided an in-depth understanding of the research design and the methods used in conducting this study, the next chapter deals with the systematic presentation and discussion of the quantitative research findings.

## **CHAPTER 7: QUANTITATIVE RESEARCH FINDINGS**

### **7.1 Introduction**

The preceding chapter discussed the research design and methodology. The chapter reported on the results of the factor analysis and reliability test conducted on both the MC and ET constructs. The chapter also presented the hypotheses to be tested. This current chapter presents and discusses the regression results in relation to the proposed conceptual model. Additionally, the results are interpreted and discussed within the extant microfinance literature. The main goal of this chapter is to provide an in-depth discussion on the impact of both MC and ET on MSE performance. Specifically, the chapter seeks to find out the impact of MC and ET on MSE performance in three principal growth areas namely, *employment*, *sales*, and *profitability*.

### **7.2 Demographic Analysis of Respondents**

This section analyses the demographic characteristics of the respondents. The demographic characteristics include gender distribution, the age of respondents, marital status, the role played in business and educational levels of MSE managers.

#### **7.2.1 Gender Distribution of Respondents**

The results as shown in Table 7.1 below indicates that females constituted the highest proportion of the MSE owners engaged in this study. Out of the 506 respondents, 482, representing 95.3% were females while 24 representing 4.7% were males. This finding is consistent with the study of D'espallier et al. (2011) on 350 MFIs where it was discovered that 73% of microfinance clients were women.

**Table 7.1 Gender Distribution**

		Frequency	Valid Percent	Cumulative Percent
Valid	Male	24	4.7	4.7
	Female	482	95.3	100.0
	Total	506	100.0	

Evidence suggests that microfinance works better with women than men particularly in a developing country context where many women are marginalised and denied access to basic resources in society (Mahmood et al.,2014). Women empowerment is one of the aims of MC. Usually, FNGOs provide MC to women-owned enterprises as a support for employment generation for themselves and to reduce their vulnerability to poverty (Chliova et al., 2015). Many MFIs have therefore become increasingly interested in the extent to which women are able to benefit from MC programmes. This is because, women are noted to contribute greatly to poverty reduction by increasing investment in household welfare and at the same time reducing households' vulnerability (Rehman, Moazzam, & Ansari, 2015). Furthermore, it has been found that there is a higher probability of females paying back their loans than males since females are found to be more credit-disciplined than males (Al- Mamun et al., 2014). Gender is one of the variables being used as a control variable in moderating the impact of MC and ET on the performance of MSEs. This is examined later in this chapter.

### **7.2.2 Age of Respondents**

Table 7.2 below indicates that most of the respondents (231) were between the ages of 46 – 55 years representing 45.7% while 135 (26.7%) had ages between 36 – 45

years. It was also shown that 82 (16.2%) of the respondents had ages between 26 – 35 and 16 (3.2%) were below 25 years while 41 (8.1%) were more than 55 years. This implies that most of the clients are from the older group (46-55) and this is likely to have a higher impact on the MC activities of FNGOs. The age of microfinance clients is considered one of the most important factors in MC delivery. This is because, it has been established that older borrowers of MC are more experienced and responsible in using credit facilities for entrepreneurial activities than younger ones (Onyina & Turnell, 2013).

**Table 7.2 Age of Respondents**

		Frequency	Valid Percent	Cumulative Percent
Valid	0	1	.2	.2
	Under 25	16	3.2	3.4
	26 - 35	82	16.2	19.6
	36 - 45	135	26.7	46.2
	46 - 55	231	45.7	91.9
	55+	41	8.1	100.0
	Total	506	100.0	

### 7.2.3 Marital Status of Respondents

With regards to the marital status of the respondents, the results as shown in Table 7.3 indicate that 383 constituting 75.7% of the respondents were married, 65 (12.8%) were single, and 28 (5.5%) were divorced while 29 (5.7%) were widowed. The result suggests that majority of the clients of FNGOs are married. This could imply that beneficiaries are able to keep their families together because of the financial

intermediation received from FNGOs. This can be interpreted to mean that household welfare for the spouses and children are high due to the availability of MC from FNGOs to engage in income-generating activities. Because MC has one of its aims of increasing the welfare of individuals and households (Helmes, 2006; Habib & Jubb, 2013).

**Table 7.3 Marital Status of Respondents**

		Frequency	Valid Percent	Cumulative Percent
Valid	0	1	.2	.2
	Married	383	75.7	75.9
	Single	65	12.8	88.7
	Divorced	28	5.5	94.3
	Widowed	29	5.7	100.0
	Total	506	100.0	

#### **7.2.4 Dominant Role in Business**

Another important factor considered in the demographic analysis is the roles played by the respondents in the business. The roles played by the respondents as shown in Table 7.4 below indicate that 479 respondents representing 94.7% were business owner-managers. The results also show that 5 (1%) were owners of the MSEs but were not actively involved in the management. Also, 16 (1.2%) were managers who are not owners of the MSEs. From these findings, it could be stated that the majority (94.7%) of the respondents manage their own businesses and personally play a key role in decision making and seeking finance for their MSEs. This is consistent with other related studies which argue that MC is primarily for self-employment where individuals are financially assisted to create and manage their own businesses

(Copestake, 2007; Dzansi & Atiase, 2014; Helmes, 2006). It is important to state also that, the role of owner-managers is very important when it comes to small business management. The reason being that owner-managers of MSEs have dominant positions and extensive social capital which is usually used for accessing other business resources (Davidsson & Honig, 2003). This finding is consistent with a related study of Fatoki (2011) where it was found that MSEs by nature in Africa double as owners as well as managers of their enterprises.

**Table 7.4 Role of Respondents in Business**

		Frequency	Valid Percent	Cumulative Percent
Valid	Owner manager	479	94.7	94.7
	Owner	5	1.0	95.7
	Manager	16	3.2	98.8
	Other	6	1.2	100.0
	Total	506	100.0	

### 7.2.5 Educational Level of Respondents

Educational level of MSE owners could have a tremendous effect on the performance of MSEs. As indicated in Table 7.5, 122 respondents representing 24.1% had no formal education. Also, 319 (63%) of the respondents had primary education, 55 (10.9%) had secondary education and 9 (1.8%) were undergraduate while 1 respondent (0.2%) had a postgraduate education. This finding indicates that only a few of the respondents had higher education such as undergraduate and

postgraduate degrees and the majority of the FNGO clients only have basic education and this could have a negative impact on the management of their MSEs.

As noted by Rambe and Makhalemele (2015), the educational level of managers plays an important role in the success or failure of MSEs. However, since FNGOs targets mostly the poor who are usually illiterates, Newman et al. (2014) argues that it is important for such clients to be frequently provided with ET which will compensate for the lack of formal education. Such training according to Rauch et al.(2005) should involve the acquisition of the requisite management skills in the form of accounting, customer management, marketing, product development and leadership skills. Educational level of respondents is one of the variables being used as a control variable in moderating the impact of MC and ET on the performance of MSEs. This is examined later in this chapter.

**Table 7.5 Manager's Level of Education**

		Frequency	Valid Percentage	Cumulative Percentage
Valid	Postgraduate degree	1	0.2	0.2
	Undergraduate degree	9	1.8	2.0
	Secondary school	55	10.9	12.8
	Primary school	319	63.0	75.9
	No formal education	122	24.1	100.0
	Total	506	100.0	

### 7.3 Business Profile of MSEs in Ghana

Having examined the demographic characteristics of the respondents above, it is also important to discuss the business profile of the MSEs engaged in this study.



This analysis will provide an in-depth understanding of the background of the MSEs. The business profile includes the nature of registration, type of ownership, capital invested, the age of business and industry category.

### **7.3.1 Business Registration of Sampled MSEs**

MSEs operating in the Volta region of Ghana have two options in registering their businesses. Firstly, they can choose to register with the District/Municipal Assembly of where the business is located. Secondly, they are also allowed to register with the national registration body known as the Registrar General's Department which is not mandatory. As indicated in Table 7.6 below, out of the 506 MSEs engaged in this study, 69 representing 13.6% have registered with the Registrar's General's Department (RGD). In terms of registration with the District /Municipal Assembly, 351 MSEs representing 69.4% have registered while 155 MSEs representing 30.6% have not. The results therefore indicate that majority of the MSEs (69.4%) are registered with the District/Municipal Assembly. It is observed that registration with the national body is minimal while many of the MSEs prefer registering with the District/Municipal Assembly due to bureaucratic challenges usually associated with the national registration body.

Registering a business has several benefits that come with it. For instance, it has been noted that new firm registrations secure and provides a reliable source of employment, contributes effectively to GDP as well as formalises entrepreneurial activities in a country (Klapper et al., 2015). However, it has been observed that MSE owners are unwilling to register their businesses with the national registration body due to the fear that authorities will use their details to pursue them for tax purposes (Demenet et al., 2016). More importantly, various coercive institutions

which are set up by the government such as the Ghana National Revenue Authority to enforce business formalisation and registrations for tax purposes seem to be weak and ineffective in doing so (DiMaggio & Powell, 1983).

**Table 7.6 Business Registration of MSEs**

	YES	%	NO	%	Total Count	Total %
Business registration with Registrar General's Department	69	13.6	437	86.36%	506	100%
Business registration with District/Municipal Assembly	351	69.4	155	30.6%	506	100%

### **7.3.2 Ownership Structure of Sampled MSEs**

This section examines the legal form of the MSEs engaged in this study. Table 7.7 below shows that 493 MSEs representing 97.4% were sole proprietorships. It also indicated that only 11(2.2%) were limited liability companies while 2 (0.4%) were partnership companies. The result indicates that majority of the MSEs operate as sole traders which is common in the MSE sector.

Ang et al. (2000) argue that even though sole proprietorships have zero agency cost in its management, it may lack the type of oversight control that may be needed for an effective decision making. More importantly, Coleman and Carsky (1999), argue that, with a sole proprietorship, raising additional funding for business expansion remains a challenge. The researcher again indicated that since there is a lack of separation between the firm resources and that of the owner, potential investors are not able to build enough confidence when it comes to investing into sole proprietorships. In contrast, firms incorporated as limited liability or partnerships appear to be more credible in operations and can attract external financing even

though this may come with audit costs and other statutory requirements (Cassar, 2004).

**Table 7.7 Ownership Structure of MSEs**

		Frequency	Valid Percent	Cumulative Percent
Valid	Sole proprietorship	493	97.4	97.4
	Partnership	2	0.4	97.8
	Limited liability company	11	2.2	100.0
	Total	506	100.0	

### 7.3.3 Capital Investments

With regards to the amount of start-up capital invested in these MSEs, the results in Table 7.8 indicates that majority (77.5%) of the MSEs have invested an amount between GH¢10,000-GH¢20,000 with 14% investing between GH¢5,000 - GH¢10,000 as start-up capital. The result, therefore, shows that most of the MSEs have invested huge amounts of capital which require the availability of the required managerial competency to manage such investments in order to have the desired impact on the MSE performance.

**Table 7.8 Level of Capital Invested in MSEs**

		Frequency	Valid Percent	Cumulative Percent
Valid	GH¢500 - GH¢2000	46	9.1	9.1
	GH¢2001 - GH¢5000	24	4.7	13.8
	GH¢5001 - GH¢10,000	71	14.0	27.9
	GH¢10,001 - GH¢20,000	365	77.5	100
	Total	506	100.0	

### 7.3.4 Business Age

This section analyses the number of years the MSEs has been in operation. From Table 7.9 below, the majority (78%) of the MSEs have been in operation for more than 6 years. Gaining relevant business experience through several years of operation is very important for acquiring the necessary managerial skills required for managing an MSE successfully. Behrens et al. (2012) noted that MSE managers are able to acquire the necessary skills in managing their enterprises efficiently through the number of years spent in business operation. In a related study, Stam et al. (2014) also indicated that the level of social capital of a firm which is one of the important resources for the small business owner grows with the number of years that the business has existed. Business age is one of the variables being used as a control variable in moderating the impact of MC and ET on the performance of MSEs. This is examined later in this chapter.

**Table 7.9 Business Age**

		Frequency	Valid Percent	Cumulative Percent
Valid	0	1	.2	.2
	2-5	110	20.9	21.1
	6 -10	244	48.22	69.32
	11 -15	115	22.7	92.02
	15+	36	7.11	100.0
	Total	506	100.0	

### **7.3.5 Industry Category of MSEs**

This section analyses the various categories of businesses engaged in this study. From Table 7.10, general trading (36.5%) is the most dominant economic activity financed by the FNGOs and this is followed by general services constituting 33.2% of the total sample. The third category is transport and distribution (19%) followed by the hospitality industry constituting 4.6%. Agriculture, education, and manufacturing are minimally financed since these categories usually demand long-term financing. Nevertheless, the manufacturing sector receiving less attention when it comes to financing could be a concern as far as the development of the region is concerned. As argued by Teal (1990), no nation could develop solely on mercantile trading and commerce without manufacturing. Therefore, there is the need for FNGOs to shift a bit of focus to the manufacturing sector. Secondly, the agricultural sector has also received less attention when it comes to funding by FNGOs. Agriculture is the backbone of many developing nations (Minten & Barrett, 2008; Markelova, et.al., 2009). Therefore, for an effective employment generation to reduce the current unemployment in Ghana, FNGOs need to direct funding to the agricultural sector.

It is also important to note that, the industry in which a firm operates determines its financing needs. Wang (2004) indicate that firms in the services sector have different financing needs and choices as compared to those in the manufacturing or agricultural industry. Therefore, one needs to know whether industry categorisation is an important factor in moderating the extent to which MC and ET impact on the performance of MSEs. Industry category is one of the variables being used as a control variable in moderating the impact of MC and ET on the performance of MSEs. This is examined later in this chapter.

**Table 7.10 Business Industry**

	Frequency	Percent	Valid Percent	Cumulative Percent
Agriculture	5	1	1	1
Manufacturing	12	2.4	2.4	3.4
Construction	10	2	2	5.4
General services	168	33.2	33.2	38.6
General Trading	185	36.5	36.5	75.1
Hotels & Restaurant	22	4.3	4.3	79.4
Education	8	1.6	1.6	81
Transport and distribution	96	19	19	100
Total	506	100	100	

#### **7.4 Statistical Justification for Employing Multiple Regression**

In view of the conceptual model underpinning this study, multiple regression analysis is considered to be the most suitable measurement method for measuring the multiple independent variables in the proposed model. Multiple regression analysis allows for the examination of how multiple independent variables affect a dependent variable (Aiken et al. 1991). The use of MC and ET variables as well as the control variables (CV) (owner and firm characteristics), justifies the use of multiple regression analysis to test this relationship. When the relationship between the independent and the dependent variables are known through multiple regression analysis, it is possible to predict any future effect of the independent variable on the dependent variables.

#### **7.5 Descriptive Statistics**

The descriptive statistics in terms of the mean, standard deviations, minimum and maximum values, skewness and kurtosis of both the dependent and independent variables are presented in Table 7.11 below. An overview of the mean values of the dependent variables (employment =4.2588, profitability= 4.1956, sales =4.2470) indicates that MC and ET have an impact on the performance of MSEs. The values for skewness for all the variables indicate that both the independent and dependent variables are not negatively or positively skewed. This implies that the data is normally distributed. Also, the mean values of all the independent variables show that they have contributed to determining the dependent variables. For instance, ET content has the highest mean (4.3616) while the lowest mean is ET accessibility (3.6798).

**Table 7.11 Descriptive Statistics for Variables**

Descriptive Statistics								
Variable	Minimum	Maximum	Mean	Std. Dev.	Skewness	Kurtosis		
					Statistic	Std. Error	Statistic	Std. Error
Employment	2.00	5.00	4.2588	.46476	.624	.109	.256	.217
Profitability growth	2.00	5.00	4.1956	.51440	.157	.109	.563	.217
Sales growth	2.00	5.00	4.2470	.45841	.675	.109	.427	.217
Gender	0.00	1.00	0.14	0.353	2.056	.109	2.274	.217
Business age	2.00	5.00	4.0000	.66003	-.290	.109	.192	.217
Industry category	1.00	7.00	5.0039	1.05866	-1.053	.109	1.538	.217
Manager's	2.00	6.00	5.0909	.65675	-.644	.109	1.555	.217
Loan Amount	1.00	5.00	3.9920	1.00381	-1.430	.109	1.821	.217
Loan accessibility	2.66	5.00	4.0474	.51804	-.010	.109	.918	.217
Loan cost	1.00	5.00	4.2248	.78031	-.839	.109	.586	.217
Loan flexibility	1.00	5.00	4.0904	.60982	-2.003	.109	8.815	.217
ET accessibility	2.00	5.00	3.6798	.67799	-.347	.109	.114	.217
ET frequency	.00	5.00	3.9565	.56820	-.658	.109	4.510	.217
ET content	1.00	5.00	4.3616	.66325	-1.158	.109	2.359	.217
ET efficiency	1.00	5.00	4.1805	.81886	-.801	.109	.209	.217
Valid (listwise)	506							

## 7.6 Analysis of Inter-correlation Among the Variables

The correlation analysis as shown in Table 7.12 was carried out to determine the relationship which exists between the independent, control and the dependent variables. This analysis also indicates correlations that are significant and those that are insignificant. Another purpose of this analysis is to check for multicollinearity. Multicollinearity is a situation whereby two or more predictor variables in a multiple regression model are highly correlated ( $\alpha \geq 0.80$ ). This implies that one variable can be linearly predicted by more than one variable with a non-trivial degree of accuracy (Yu, Jiang, & Land, 2015)

Observing the Variance Inflation Factors (VIF) as shown in Table 7.13 indicates that, all the VIF values are below 4 which show that multicollinearity is not a major concern in this study (Wang & Ahmed, 2009). Secondly, the results also indicate that



the predictor variables (MC and ET) and control variables (gender, managers level of education, industry category and business age) are not highly correlated with the dependent variables (P) hence there is no concern for multicollinearity. This implies that two predictor variable cannot substantially predict the same dependent variable with a high degree of accuracy (Burns & Burns, 2008).

The emphasis in this regard is placed on the degree to which the linear regression model can measure the impact of MC and ET on P. Therefore, it is important to establish the interrelationship between the variables used in the conceptual model. For this purpose, the correlation coefficient is used to measure the strength and direction of the relationships among the variables (Mukaka, 2012). The direction and value of the correlation coefficient can either be positive or negative ( $-1 < r < +1$ ) where  $+r$  and  $-r$  are positive and negative linear correlations respectively. Whether the relationships are positive or negative, it can also be perfect, strong, moderate, weak or spurious (Miles & Shevlin, 2001). According to Miles and Shevlin (2001) the correlation coefficient is said to be very strong or perfect when  $r = 0.8 \leq 1.0$ ; strong, when  $r = 0.6 \leq 0.8$ ; moderate, when  $r = 0.4 \leq 0.6$ ; weak, when  $r = 0.2 \leq 0.4$ ; or very weak or no relationship, when  $r = 0 \leq 0.2$ .

From the results, all the dependent variables (employment, sales and profitability) correlate positively with all the independent variables except loan cost which correlates negatively. For instance, employment has a correlation coefficient of  $r = 0.258$  with loan flexibility,  $r = -0.013$  with loan cost;  $r = 0.279$  with loan amount;  $r = 0.308$  with loan access;  $r = 0.085$  with ET content;  $r = 0.144$  with ET efficiency;  $r = 0.238$  with ET frequency and  $r = 0.188$  with ET access. Similarly, sales and profitability correlate positively with the MC variables except for loan cost and positively with all the ET variables. With respect to the control variables, the results

indicate that all the dependent variables correlate positively with the control variables. In summary, the results depict a weak correlation (thus  $r \leq 0.4$ ) among most of the dependent, independent and control variables.

Concerning the interrelationships among the dependent variables, the results showed that employment, sales, and profitability correlate strongly with each other. For instance, employment has a positive correlation coefficient of  $r = 0.926$ . With sales,  $r = 0.765$  and with profitability,  $r = 0.744$ . In the measurement of the performance of MSEs, many studies have found that there exists a positive relationship among employment, sales, and profitability (Lu & Beamish, 2006; Fatoki, 2011; Blackburn et al., 2013).

**Table: 7.12 Correlation Matrix for Microcredit, Entrepreneurship Training, Control Variables and Performance**

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Pearson Correlation	Employment	1														
	Sales	0.926	1													
	Profitability	0.765	0.744	1												
	Gender	0.124**	0.100**	0.103**	1											
	Manager's Educational level.	0.169***	0.155***	0.094**	0.158***	1										
	Industry Category	0.347***	0.297***	0.218***	0.056	0.105**	1									
	Business Age	0.327***	0.286***	0.252***	0.024	0.074**	0.756***	1								
	Flexibility of loan repayment	0.258***	0.248***	0.158***	0.048	0.169***	0.122**	0.045	1							
	Loan cost	-0.013	-0.012	-0.042	-0.013	0.149***	-0.006	-0.060*	0.280***	1						
	Loan Amount	0.279***	0.265***	0.204***	0.035	0.111**	0.062*	-0.015	0.333***	0.104**	1					
	Loan Accessibility	0.308***	0.298***	0.252***	0.02	0.094**	0.600***	0.741***	0.097**	-0.019	-0.014	1				
	ET Content	0.085**	0.075**	0.057**	-0.098**	-0.039	0.058*	0.023	-0.067*	0.033	0.094**	0.011	1			
	ET Efficiency	0.144**	0.088**	0.106**	-0.042	-0.096**	0.169***	0.153***	-0.044	-0.147***	-0.071**	0.137**	0.04	1		
	ET Frequency	0.238***	0.247***	0.158***	0.016	0.042	-0.004	-0.012	0.086**	0.070*	0.062*	-0.045	-0.027	-0.131**	1	
	ET Accessibility	0.188***	0.191***	0.106**	0.073*	0.119**	0.161***	0.088**	0.180***	0.097**	0.074**	0.143**	0.008	0.054	0.061*	1

**Note:** The table above shows the correlation among all the variables. The levels of significance are \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

The correlation matrix above which contains 15 variables provides the platform and justification for employing multiple regression analysis to predict the value of the dependent variables based on the relationships that exist between the dependent and independent variables.

## 7.7 Regression Analysis and Hypotheses Testing

A multiple linear regression was employed to test the various hypothesis presented in chapter 6. Multiple linear regression as employed because it is assumed that this study has met all the seven assumptions of a typical linear regression model (Berry, 1993). According to Poole and O'Farrell (1971), if a multiple linear regression is represented as:

$$Y = a + \sum_{i=1}^k b_i X_i + u$$

Where  $Y$  denotes the dependent variable;  $X_1, X_2 \dots X_i \dots X$  are  $k$  independent variables;  $a$  and  $b_i$  represents the regression coefficients, indicating the parameters of the model regarding a specific population; and  $u$  is the error term which may be because of the effect of an unidentified predictor variable (s) or even a totally random element in the relationship. Then, the seven assumptions as stated below may apply.

1. Each separate value of  $X_i$  and of  $Y$  should be observed without an error in the measurement.
2. The relationship between  $Y$  and each of the predictor variables should be in a linear form.

3. There should be a conditional distribution of  $u$  as a zero mean
4. There should also be a homoscedasticity assumption in the sense that there should be a constant in the conditional distribution of  $u$ .
5. The values of  $u$  should be serially independent of each other and the covariance is expected to be zero.
6. All independent variables should be linearly independent of each other
7. The distribution of the error term must be normal, and the dependent variable  $Y$  is also expected to have a normal distribution.

In order to test the various hypotheses presented in Chapter 6, a multiple linear regression was executed on all variables as shown in Table 7.13. The regression analysis was carried out in two stages. The first stage which is model 1 consist of 3 regressions executed with the 4 control variables (Gender, managers' educational level, industry category and of business age) and each of the 3 dependent variables done separately (employment growth, sales growth, and profitability growth). The second stage which is model 2 also consists of 3 regressions executed with the 4 control variables, the 8 independent variables (loan cost, the flexibility of loan repayment method, loan amount, loan accessibility, training content, training efficiency, training frequency and training accessibility) and the 3 dependent variables separately. In effect, 6 regressions were executed to test the relationship between all the variables in the proposed model.

From the regression result, the  $R^2$  and its adjusted values,  $P$ -values,  $F$ -values and the  $\beta$  -values are of importance. The  $R^2$  indicates the overall fitness of the regression model. The adjusted  $R^2$  values ranging between 0 and 1 also explains the variances in the dependent variables (employment growth, sales growth, and profitability growth) as a result of the independent variables. The closer the adjusted  $R^2$  values

are to 1, the higher the level of variations explained by the independent variables. Also, the closer the values are to 0, the lesser the variations that are explained in the dependent variable.

From the regression results,  $R^2$  values of model 2 were inspected. The  $R^2$  values are employment (0.328), sales (0.285), and profitability (0.1720) indicating a strong model. The adjusted  $R^2$  values are employment (0.312) sales (0.267), and profitability (0.151). This implies that the full regression model can explain the variances in employment, sales and profitability growth by 31.2%, 26.7%, and 15.1% respectively. When the adjusted  $R^2$  values of model 2 are compared to that of model 1, it can be seen that there has been a significant change in the adjusted  $R^2$  values. For instance, the adjusted  $R^2$  values for model 1 are employment (0.149), sales (0.110), and profitability (0.070). Observing closely, it could be seen that employment growth has changed from 14.9% to 31.2%. Similarly, sales growth has also changed from 11% to 26.7%. Finally, profitability growth has changed from 7% to 15.1%. These observed changes indicate that the independent variables significantly explain the variances in the dependent variables. Thus, there is a percentage change of 16.3%, 15.7% and 8.1% in employment, sales and profitability growth respectively.

The F-value is used to assess if the independent variables significantly explain the dependent variable. To assess the overall fitness of the model, ANOVA  $F$ -values of the full regression model were also inspected. The  $F$ -values are employment (20.059), sales (16.367), and profitability (8.506) which are all significant at 1% level ( $p=0.000$ ). The level of significance is determined by the  $p$ -values of the  $F$ -statistic. Similarly, a variable is significant if the  $p$ -value is less than 0.05 or 0.01. The value of the unstandardised coefficients ( $\beta$ ) of the regression model determines the strength

and the impact of the independent variables on the dependent variable. The  $\beta$ -values could be positive or negative indicating the direction of impact. The following sections report the findings of the regression analysis of the various models as indicated above.

**Table 7.13 Multiple Regression Analysis of MSE Performance**

Multiple regression analysis of MSE performance																								
	Employment Growth								Sales Growth								Profitability Growth							
	Model 1				Model 2				Model 1				Model 2				Model 1				Model 2			
	$\beta$	St. Err.	Sig.	VIF	$\beta$	St. Err.	Sig.	VIF	$\beta$	St. Err.	Sig.	VIF	$\beta$	St. Err.	Sig.	VIF	$\beta$	St. Err.	Sig.	VIF	$\beta$	St. Err.	Sig.	VIF
Gender	0.196**	0.091	0.001	1.028	0.194**	0.082	0.019	1.044	0.148**	0.092	0.002	1.028	0.140*	0.084	0.095	1.044	0.207**	0.105	0.049	1.028	0.207**	0.101	0.041	1.044
Manager's Educational Level	0.086**	0.030	0.004	1.036	0.062**	0.027	0.024	1.095	0.081**	0.030	0.004	1.036	0.053*	0.028	0.058	1.095	0.047	0.034	0.173	1.036	0.031	0.034	0.364	1.095
Industry Category	0.184**	0.055	0.001	2.351	0.090*	0.051	0.080	2.477	0.145**	0.056	0.001	2.351	0.056	0.052	0.285	2.477	0.049	0.064	0.448	2.334	0.026	0.063	0.679	2.477
Business Age	0.149**	0.059	0.002	2.334	0.116*	0.065	0.074	3.423	0.139**	0.060	0.002	2.334	0.075	0.066	0.254	3.423	0.217**	0.069	0.002	2.351	0.145*	0.079	0.068	3.423
Flexibility of loan repayment					0.108**	0.032	0.001	1.283					0.102**	0.032	0.002	1.283					0.071	0.039	0.070	1.283
Loan Cost					-0.049**	0.023	0.036	1.134					-0.051**	0.024	0.032	1.134					-0.052	0.029	0.071	1.134
Loan Amount					0.096***	0.018	0.000	1.161					0.089***	0.019	0.000	1.161					0.088***	0.023	0.000	1.161
Loan Accessibility					0.102**	0.050	0.042	2.291					0.146**	0.051	0.004	2.291					0.141	0.062	0.023	2.291
ET Content					0.056**	0.026	0.033	1.042					0.050	0.027	0.063	1.042					0.044	0.032	0.179	1.042
ET Efficiency					0.078***	0.022	0.000	1.089					0.047**	0.022	0.036	1.089					0.062**	0.027	0.022	1.089
ET Frequency					0.193***	0.031	0.000	1.033					0.147***	0.038	0.000	1.033					0.147***	0.038	0.000	1.033
ET Accessibility					0.050	0.026	0.061	1.084					0.058**	0.027	0.030	1.084					0.024	0.032	0.466	1.084
R <sup>2</sup>	0.156				0.328				0.117				0.285				0.078				0.172			
Adj. R <sup>2</sup>	0.149				0.312				0.110				0.267				0.070				0.151			
ANOVA F	23.141				20.059				16.658				16.367				10.525				8.506			
Sig. F	0.000				0.000				0.000				0.000				0.000				0.000			
N	506				506				506				506				506				506			

Note: The table shows the unstandardised coefficients ( $\beta$ ), the value of the adjusted R<sup>2</sup>, the significance levels and  $F$  change. The levels of significance are: \* $p < 0.1$ ,

\*\* $p < 0.05$ , \*\*\* $p < 0.01$



## **7.8 The impact of Firm Characteristics on MSE Performance**

One of the assumptions of this study is that the impact of MC and ET on the performance of MSEs largely depends on both the owner and MSE characteristics and the way these resources are utilised. Even though this study considers MC and ET as important factors in ensuring a significant impact on MSE performance, owner and firm characteristics also play moderating role in the impact (Cooper et al., 1994; Anderson & Eshima, 2013). It is for this reason that the study controlled for firm characteristics in using MC and ET on the performance of MSEs. In examining this relationship, the influence of the MSE characteristics on performance in terms of employment, sales, and profitability growth is examined. Therefore, three regression models were executed in measuring the influence of MSE characteristics (gender, manager's level of education, industry category and business age) on performance.

### **7.8.1 The impact of Firm Characteristics on Employment Growth of MSEs**

From Table 7.13 (Model 1), gender, manager's level of education, business age, and industry category are statistically significant at 5% level. Thus, gender ( $p = 0.001$ ,  $\beta = 0.196$ ) manager's level of education ( $p=0.004$ ,  $\beta = 0.086$ ) industry category ( $p=0.001$ ,  $\beta = 0.184$ ) and business age ( $p=0.002$ ,  $\beta = 0.149$ ). More so, holding all other variables constant, whiles gender determines employment growth by 19.6%, manager's level of education determines employment by 8.6%. Industry category determines employment by 18.4% and finally, business age determines employment growth by 14.9%. This implies that at a confidence level of 95%, firm characteristics could predict employment growth significantly.

From Table 7.13, the  $R^2$  is 0.156 and its adjusted value is 0.149. Inferring from the adjusted  $R^2$ , firm characteristics can explain the variance in employment growth by

14.9%. Also, the  $F$  statistic been 20.059 (Table 7.13) is statistically significant at the 1% level ( $p=0.000$ ). This indicates that firm characteristics could significantly predict employment growth among MSEs in Ghana. From the analysis above, it can be concluded that firm characteristics are largely likely to influence employment growth among MSEs in Ghana. As noted in the earlier discussion, firm characteristics such as gender, age, and industry category have a significant influence on the growth and performance of the MSEs (Park & Bae 2004; Miller, 2014). In effect, the gender of the owner, manager's level of education, business age and industry category have an influence on employment growth of MSEs (Cooper et al.,1994; Man et al. ,2002; Anderson & Eshima, 2013). Helmes (2006) indicate that since microfinance programmes work better with women, gender is likely to influence the delivery and impact of microfinance programmes on MSEs. Anderson and Eshima (2013) in a related study, concludes that the number of years that a business has been in existence could have a positive impact on business success in terms of financial and employment growth. According to the researchers, the number of years in operation enables the business to gain experience in terms of identification of practical challenges and their attendant solutions, and growth opportunities, all of which contribute to the performance of the business. Wang (2016) observe in a current study about the growth of MSEs in developing countries that, younger firms lack resources than older ones. This in effect has implication on performance since the better a firm's resources are, the more performance is assured (Barney, 1991).

### **7.8.2 The impact of Firm Characteristics on Sales Growth of MSEs**

From Table 7.13 (Model 1), gender, manager's level of education, business age, and industry category are statistically significant at 5% level. Thus gender ( $p = 0.002$ ,  $\beta = 0.148$ ) manager's level of education ( $p=0.004$ ,  $\beta = 0.081$ ) industry category ( $p=$

0.001,  $\beta = 0.145$ ) and business age ( $p= 0.002$ ,  $\beta = 0.139$ ). The coefficients of determination indicate that whiles gender determines sales growth by 14.8%, managers educational level determines it by 8.1%. Similarly, whiles industry category determines sales growth by 14.5%, business age determines it by 13.9%. From Table 7.13 (Model 1), the  $R^2$  is 0.117 and its adjusted value is 0.110. Inferring from the adjusted  $R^2$ , firm characteristics can explain the variance in sales growth by 11.0 %. The  $F$ -change for the regression model is 16.658, and it is statistically significant at the 1% level ( $p=0.000$ ). This implies that the regression model is effective in predicting sales growth. Therefore, firm characteristics are significant in predicting sales growth among MSEs in the Volta Region of Ghana.

Gender is noted to have a positive influence on the sales performance of MSEs (Levy & Sharma,1994). Other empirical studies such as that of Rosa et al. (1996) and Gundry and Welsch (2001) supports this assertion that gender could have an influence on an organisation's sales revenue particularly in trades which are either male or female dominated. The manager's level of education is also positively related to sales growth. Rambe and Makhalemele (2015) noted that the educational level of an MSE owner is an important factor for growth and performance. Regarding the industry category, the results indicate that it is positively correlated with sales growth. This is consistent with the study of Boter and Lundstrom (2005) where the researchers argue that the industry category, business sector and even regional location of an MSE determines the level of support it receives from government and other stakeholders and this eventually affects their performance such as in the growth of sales revenue. Finally, from the result, business age has a positive relationship with sales growth. Arend (2014) argues that the age of an MSE has a tremendous impact on how it uses dynamic capabilities to affect performance.

### **7.8.3 The impact of Firm Characteristics on Profitability Growth of MSEs**

From Table 7.12 (Model 1), the regression results indicate that whiles gender ( $p = 0.049$ ,  $\beta = 0.207$ ), and business age ( $p = 0.002$ ,  $\beta = 0.217$ ) are statistically significant at 5% level, manager's educational level ( $p = 0.173$ ,  $\beta = 0.047$ ) and industry category ( $p = 0.448$ ,  $\beta = 0.049$ ) are statistically insignificant. The coefficients of determination indicate that whiles gender determines profitability growth by 20.7%, business age determines profitability growth by 21.7%. From Table 7.13 (Model 1), the  $R^2$  is 0.078 and its adjusted value is 0.070. Inferring from the adjusted  $R^2$ , firm characteristics can explain the variance in profitability growth of MSEs by 7%. The  $F$ -change for the regression model is 10.525, and it is statistically significant at the 1% level ( $p = 0.000$ ). This implies that the regression model can significantly predict sales growth among MSEs in Ghana. Collins-Dodd et al. (2004) in a comparative study of male and female small businesses, concluded that gender plays a moderating effect on the profitability of MSEs. Thus, drawing a conclusion from sole proprietorships in developing countries, the researchers indicate that MSEs which are managed by women are likely to be properly managed and more profitable than those managed by men. Other firm characteristics such as the educational level of the MSE owner, industry category and business age have an impact on the profitability of MSEs (Blackburn, Hart, & Wainwright, 2013).

### **7.9 The Impact of MC and ET on MSE Performance**

This section investigates the impact of MC and ET on MSE performance in the Volta Region of Ghana. In line with the hypothesis, the study proposed that MC and ET have a positive relationship with MSE performance. Therefore, in this section, the study will test this hypothesis and assess the impact of MC and ET on MSE

performance in three principal growth areas (employment, sales, and profitability). To examine how MC and ET affect MSE performance, the study examined three regression models involving each of the performance indicators, the independent and the control variables. The sections below discuss the results of this regression analysis regarding the impact of MC and ET on MSE performance.

### **7.9.1 The Impact of MC and ET on Employment Growth of MSEs**

One of the measures that are used in measuring the performance of an MSE is employment growth (Storey, 1994; Fatoki, 2011; Blackburn et al., 2013; Raven & Le, 2015). Employment growth of MSEs is important because; firstly, the fundamental purpose of microfinance is to support MSEs to generate both skilled and unskilled labour in order to reduce poverty (Copestake et al., 2005; Chliova et al., 2015). Secondly, it is a measure of financial sufficiency (Magableh et al. 2011). Thus, if MSEs are able to bear the cost of employing an additional workforce, it signifies financial adequacy in meeting business needs. In examining the impact of MC and ET on the employment growth of MSEs in Ghana, MC and ET variables were regressed against employment growth whiles controlling for MSE characteristics. Table 7.13 shows the regression analysis of both MC and ET on employment growth. From Table 7.13, the  $R^2$  is 0.328 and its adjusted value is 0.312. This implies that both MC and ET can explain the variance in employment growth by 31.2%. Also, the *F-change* value is 20.059 which is significant at the 1% level. This implies that both MC and ET can predict employment growth at a 99% confidence level. These regression results are discussed below.

## **The Impact of MC on Employment Growth of MSEs**

The results of this study, controlling for firm characteristics, show that there exists a positive correlation between MC factors and employment growth except for loan cost. As shown in Table 7.12, all the MC variables correlate positively with employment growth except loan cost (Flexibility of loan repayment method,  $r=0.258$ , loan cost,  $r=-0.13$ , loan amount,  $r=0.279$ , and loan accessibility,  $r=0.308$ ). Also, from the full regression model (Table 7.13), the results indicate that loan flexibility ( $\beta = 0.108$ ,  $p=0.001$ ), loan cost ( $\beta = -0.049$ ,  $p=0.036$ ) and loan accessibility ( $\beta = 0.102$ ,  $p=0.042$ ) are statistically significant at 5% level. However, the loan amount is statistically significant at the 1% level ( $\beta = 0.096$ ,  $p=0.000$ ). Therefore, *H1a*, *H2a*, *H3a*, and *H4a* are accepted.

Firstly, the loan cost is statistically significant at 5% in predicting employment growth in Ghana. However, it is negatively correlated with employment growth. From the result, a unit increase in loan cost decreases employment growth by 3.6%. Credit is very expensive and prohibitive to MSEs in Ghana (Abor & Quartey, 2010). On the average, many financial institutions charge between 6% to 12% per month and this runs between 72% and 144% per annum. In terms of processing fees, the cost ranges from 5% to 10% of the loan approved (Gyamfi, 2012). In addition to both the processing fee charged and the interest to be paid monthly, it is common to see many MFIs withholding between 10% to 25% of the approved amount as a cash collateral. This denies the MSE owner the opportunity to use the full amount borrowed. This confirms the regression result which indicates that loan cost is negatively correlated with employment growth of MSEs in the Volta Region of Ghana. Similarly, Beck and Cull (2014) also conclude from a related study that, the financial system in Africa is shallow, costly and has limited outreach.

FNGOs charge relatively lower interest on their loan than their commercial counterparts. However, the truth is that the cost of borrowing in Ghana is very high compared to other jurisdictions. One other reason which is attributed to the high cost of borrowing in Ghana, particularly for the MSE sector, is the inability of MSEs to provide the type of collateral needed by financial institutions as a support for loans coupled with their high failure rate (Donou-Adonsoua & Sylwester, 2016). It is because of these reasons that FNGOs intervene with a relatively cheaper source of funding to support entrepreneurs in the venture creation process for the purposes of employment generation.

The cost of accessing financial capital has, therefore, remained one of the challenges facing the growth of the MSE sector in Ghana (Egyir, 2010). The informal sector which largely contains MSEs has been neglected by the formal financial sector and this makes sourcing for entrepreneurial finance very laborious and expensive for the MSE owner (Dzansi & Atiase, 2014). Looking at the teeming unemployed youths in Ghana, resourcing and developing the MSE sector is not a choice but a necessity. This implies that there is the need for a holistic effort from all stakeholders in Ghana including government, the private sector, and the Non-profit sectors to engage MSEs adequately in employment generation. In supporting the growth of MSEs, the provision of a cost-effective credit is a pre-requisite (Osei-Assibey, 2011).

Secondly, the flexibility of loan repayment is statistically significant at the 5% level and correlates positively with employment growth. A unit increase in loan flexibility increases employment growth by 10.8%. Generally, apart from the loans offered by FNGOs, the flexibility of loan repayment terms has been identified as a challenge to MSEs in Ghana. Structuring of MC to MSEs in Ghana has not been in their favour

and this has always pushed MSEs into repayment challenges. Most loan facilities in Ghana are short term and do not take into account the cash flow of the MSEs and the gestation period of the project for which the loan has been taken (Gallardo, 2001). Structuring loan repayment to meet the needs of the business supports the cash flow of the business and could prevent loan default since the entrepreneur is able to plan loan repayment without any difficulty. The tenor of most loans ranges between 3 to 6 months. In rare occasions, such loans are given for a twelve month period. As noted by Donou-Adonsoua and Sylwester (2016), most MSEs struggle with repaying their loans because of the short-term loans which are made available to them. MSEs, therefore, do not have access to long-term loans due to their perceived risk of failure. Neither do they also have access to trade credit or leasing opportunities which make the venture creation process less costly (Fatoki, 2011). This makes the role of FNGOs crucial to the development of MSEs in the Volta Region of Ghana. It has been observed that FNGOs are able to issue long-term loans to MSEs and support projects with long gestation periods (Xiang et al., 2014). Apart from this, they are also able to provide frequent entrepreneurship and managerial training which equips MSE owners with the necessary skills in managing such ventures (Batttilana & Dorado, 2010). In this study, therefore, the result shows that FNGOs are able to offer loans to MSEs with flexible repayment terms which have a positive impact on their employment growth.

Thirdly, the loan amount is statistically significant at the 1% level and correlates positively with employment growth among MSEs in Ghana. A unit increase in loan amount increases employment growth by 9.6%. Apart from the MC delivered by FNGOs, adequacy of loans accessed by MSEs in Ghana generally has been an issue of concern among microfinance clients. Microfinance institutions in their



attempt to manage the risk that is associated with MSEs, abruptly reduce loans applied by MSEs due to the perceived risk of failure associated with MSEs coupled with regulatory policies from the Central Bank (Aboagye, 2012). In most cases, financial institutions do not consider very important factors such as the size of the business, and the purpose of the loan (Baklouti & Abdelfettah, 2013; Aboagye, 2012). When loans are reduced without considering the above factors, it ceases to meet the needs of the MSEs. Loan inadequacy remains a challenge and this encourages multiple borrowing whereby MSEs borrow from more than one financial institution which creates repayment challenges during the loan cycle (Baklouti & Abdelfettah, 2013). In managing the risk associated with MSEs, it has been suggested that MFIs should use pro-poor credit risk management methods such as the provision of managerial training, regular loan monitoring and group lending methods (Ayayi, 2012). However, with FNGOs, the results of this study show that they provide loan sizes that meet the business needs of their clients. This implies that MSEs have access to adequate funding from FNGOs to engage in their business activities. Loan amount, therefore, relates positively to employment growth.

Finally, loan accessibility is statistically significant at the 5% level and correlated positively with employment growth among MSEs in Ghana. This implies that a unit increase in loan accessibility increases employment growth by 10.2%. Apart from FNGO MC programmes which are targeted at the poor, access to timely loans from both the formal financial sector and other commercially oriented microfinance service providers to meet seasonal and non-seasonal needs of MSEs remains a hurdle to the MSE owners in Ghana (Gallardo, 2001). Access to funding is more hectic for MSEs who are operating in the rural areas where many financial institutions do not operate. Because of this, MSEs borrow from money lenders at very exorbitant rates

and this affects the operational cost of MSEs (Hamilton & Fox, 1998). Extending adequate, timely and cheap source of funding to MSEs, could increase their business activities as well as cash flow. It has also been argued that one major factor which can inhibit access to entrepreneurial finance is the cost (Aboagye, 2012). Since FNGOs work mostly in rural areas by providing MC to MSEs, it has been observed that access to their facilities is not a challenge to MSEs. The results, therefore, indicate that loan accessibility is positively related to employment growth of MSEs.

In summary, in line with the conceptual model for this study, *H1a, H2a, H3a, and H4a* regarding MC and employment growth are accepted. It is important to provide cheap, timely and accessible credit to MSEs for the purposes of creating and managing their businesses. The expectation is that such assistance would have an effect on employment growth in Ghana, hence poverty reduction. In providing credit to the MSEs in Ghana, the role of FNGOs remains important because of their unique products and services.

### **The Impact of ET on Employment Growth of MSEs**

The success of the microfinance client in the venture management process does not only depend on having access to MC. However, as noted by Newman et al. (2014), the microfinance clients need to be provided with adequate entrepreneurial skills to be successful in managing their MSEs successful which is intended to generate employment. The importance of the MSE sector in Ghana cannot be under emphasised. The sector contributes to a huge employment generation as well as to the GDP of the Ghanaian economy. It has been estimated that about 85% of all manufacturing jobs comes from the MSE sector and contributes 70% to Ghana's GDP (Abor & Quartey, 2010; Frimpong, 2013). Despite its importance, the MSE

sector in Ghana operates in a resource-scarce environment with an acute lack of human capital development (Abor & Quartey, 2010). Even though there are other factors which affect the growth of MSEs in Ghana, lack of managerial capacity of MSE owners has been noted to contribute largely to the poor performance and in most cases the failure of a lot of MSEs (Fatoki, 2011; Rambe & Makhalemele, 2015). This condition has made FNGOs in Ghana instrumental in providing MSE owners with the needed ET as an attempt to develop their managerial capacity.

One of the propositions of this study is that ET factors have a positive impact on the performance of MSEs. ET plays a significant role in MSE performance and growth (Fatoki, 2011; Rambe & Makhalemele, 2015). The results (Table 7.12) from this study as indicated in Table 7.12, controlling for firm characteristics show that there is a positive correlation between ET and employment growth of MSEs (ET content,  $r=0.085$ , ET efficiency,  $r=0.144$ ), ET frequency,  $r=0.238$ ), and ET accessibility,  $r=0.188$ ). Also, the regression results (Table 7.13) indicates that whiles ET efficiency ( $\beta= 0.078$ ,  $p=0.000$ ) and ET frequency ( $\beta=0.193$ ,  $p= 0.000$ ) are significant at 1% level, ET content ( $\beta=0.056$ ,  $p=0.033$ ) is statistically significant at 5% level. However, ET accessibility is statistically insignificant ( $\beta=0.05$ ,  $p= 0.061$ ). From the results, *H5a*, *H6a*, *H7a*, are accepted whiles *H8a* is rejected.

Firstly, the results indicate that ET content is significant at the 5% level. Also, a unit increase in ET content will increase employment growth by 5.6%. Therefore the design and content of ET programmes are of importance to the performance of MSEs. When providing ET to MSE managers, Be´chard and Toulouse (1998) argue that ET should be able to achieve three main objectives. Firstly, ET should contain entrepreneurship awareness modules which would provide information and reflection

on entrepreneurship as a career choice. Secondly, ET programmes should focus on the provision of business creation skills such as technical, human, and managerial skills (Kanungo & Misra, 1992). Finally, ET programmes should provide business development skills which will equip the MSE owner with the competency to further develop his business. This implies that content-rich ET programmes would provide the MSE manager with skills which are inimitable and eventually will have a positive impact on employment growth in the MSE (Sidek & Mohamad, 2014). Boukamcha (2015) indicates that there is the need to increase the ET activity for MSE owners especially those that lack adequate formal education. The provision of ET for MSE managers in Ghana has been neglected for so long. Usually, the focus has been on the provision of financial capital to MSEs. However, as indicated by Newman et al. (2014) and Raven and Le (2015), the provision of only MC to MSEs does not make the microfinance client successful in business. Rather, the MSE owner needs to be provided with ET in order to develop various managerial skills. With FNGOs focusing on the provision ET in Ghana to MSEs, there is the need to augment the content of such programmes to increase the human capital base of MSEs owners (Rambe & Makhalemele, 2015).

Secondly, ET efficiency is statistically significant at the 1% level. A unit increase in ET efficiency will lead to an increase in employment growth by 7.8%. The efficiency of ET in terms of cost and time is also of the essence in providing MSE owners with the required ET (Lincoln & Duñcet, 1995). The cost of training can also inhibit MSEs from accessing training opportunities. Neirotti and Paolucci (2013) therefore argue that the high cost of training and the use of inefficient methods of training delivery to MSEs prevent them from investing in obtaining the needed ET. Therefore, since FNGOs are noted to provide dedicated training programmes to MSEs, their

contribution to developing the human capital base of MSEs very crucial since such services are offered without any cost to the MSEs. Moreover, it is expected that efficient training programmes should enable MSE owners to develop managerial capacities which are used in resolving business challenges (Azila-Gbetor & Adjimah, 2013).

Thirdly, training frequency is as important as training efficiency. From the results, the training frequency is statistically significant at the 1% level. Also, a unit increase in training frequency increases employment growth by 19.3%. MSE owners need to have constant training programmes which refresh their knowledge of critical business management practices and new methods of management (Rauch et al., 2005). Usually, such training programmes could be arranged on a quarterly basis if the cost of attendance is not prohibitive. Frequent training programmes could also intervene quickly in identifying business challenges at early stages before it gets out of hand. In such a case, effective training programmes could prevent MSEs from failing totally (Newkirk-Moore & Bracker (1998). Without such constant and frequent ET, MSEs might not be abreast with new managerial trends which could improve their performance (Rambe & Makhalemele, 2015). In a related study, Newkirk-Moore and Bracker (1998) observe that the frequency of attendance at managerial training programmes by MSE managers has a significant role on firm performance compared to those who do not have frequent training. In a similar study where Muraguri et al. (2016) investigated women entrepreneurs, it was concluded that the managerial performance of MSE owners correlated positively with the frequency of training attended. From the results, *H5a*, *H6a*, *H7a*, are accepted whiles *H8a* is rejected.

In summary, whiles *H5a*, *H6a* and, *H7a* are accepted *H8a* is rejected. Also, whiles

the highest predictor of employment growth is ET frequency (19.3%) the lowest predictor of employment is ET content ( $\beta=5.6\%$ ). The results show that all the variables used in measuring ET are positively correlated with employment growth. However, in the provision of such training programmes, quality content, efficiency, frequency and ease of access are important factors which FNGOs and other organisations which provide ET to MSEs in the Volta Region of Ghana need to consider.

### **7.9.2 The Impact of MC and ET on Sales Growth of MSEs**

One of the indicators for measuring the performance of MSEs is sales growth (Storey, 1994; Raven & Le, 2015). Sales growth is an important indicator because, the ability of a firm to raise its sales revenue can have an impact on its performance and its ability to meet expected and incidental costs in the business (Yazdanfar & Öhman, 2015). In the preceding employment growth section, it was established that MC and ET are significant in explaining employment growth among MSEs in Ghana (Table 7.13). In this section, the impact of MC and ET on sales growth of MSEs in Ghana is examined. In examining the impact of the MC and ET on sales growth, the variables of both MC and ET were regressed against sales growth whiles controlling for MSE characteristics.

From Table 7.13, the  $R^2$  is 0.285 and its adjusted value is 0.267. This implies that both MC and ET can explain the variance in employment growth by 26.7%. Also, the  $F$ -change value is 16.367 which is significant at the 1% level. This implies that both MC and ET can predict employment growth at a 99% confidence level. These regression results are discussed below.

### **The Impact of MC on Sales Growth of MSEs**

As shown in Table 7.12, all the variables of MC in exception of loan cost correlate positively with sales growth. Loan repayment method flexibility ( $r=0.248$ ) loan cost ( $r=-0.12$ ), loan amount( $r=0.265$ ) and loan accessibility ( $r=0.298$ ). Secondly, the regression results also indicate that loan repayment method flexibility ( $\beta= 0.102$ ,  $p=0.002$ ), loan cost ( $\beta=-0.051$ ,  $p=0.032$ ) and loan accessibility ( $\beta=0.146$ ,  $p=0.004$ ) are all significant at 5% level while loan amount is significant at 1% level ( $\beta=0.089$ ,  $p=0.000$ ). From the results, *H1b*, *H2b*, *H3b* and *H4b* are accepted.

Firstly, the flexibility of the loan repayment method is statistically significant at 5% level. A unit increase in loan repayment method flexibility increases sales growth by 10.2%. As noted in the earlier discussion, the MSE sector in Ghana has not been noted to enjoy long-term loans. Most of the MC loans are usually for short-term durations. Even some government-sponsored loans do not exceed six months, and this has the tendency to affect cash flow and restocking of products for MSEs (Tagoe et al. 2005). The expectation is that MSEs especially the younger ones are given loans with a longer duration with a flexible loan repayment conditions which does not put a burden on the financial resources of the MSE (Duan, Han, & Yang, 2009). From the results, it has been identified that FNGO loans have flexible loan repayment terms which are favourable to sales growth. This is the case, because, when there is a less loan repayment burden on the MSE, the owner could engage in more sales activities without any financial constraints and this has implications for the financial performance of the business (Godquin, 2004).

Secondly, loan cost is statistically significant at 5% level and correlates negatively with sales growth. A unit increase in loan cost will decrease sales growth by 5.1%. As noted earlier, the cost of financial capital contributes largely to the non-

performance of MSEs in Ghana (Abor & Quartey, 2010; Osei-Assibey & Asenso, 2015; Oluitan, 2014). When the cost of the loan is prohibitive, it affects the type of impact MC could have on the performance of MSEs. In most cases, the high cost of loans leads to defaults and multiple borrowing which further creates financial challenges for MSEs (Riding & Haines). Currently most FNGOs charge between 6% to 8% per month in (Ghana Osei-Assibey & Asenso, 2015). This is very high for an average MSE in Ghana. However, due to the general cost of funds in the Ghanaian financial market. Access to cheap and accessible credit would be able to support the growth of MSEs. This implies that FNGOs should be able to look for cheaper sources of funding which eventually would impact positively on sales growth of MSEs.

Regarding the relationship between the loan amount and sales growth, the result indicates that loan amount is positively correlated with sales growth and it is also statistically significant at 1% level. A unit increase in loan amount will increase sales growth by 8.9%. This implies that FNGOs provide adequate loan sizes to meet the needs of MSEs. It has been argued that FNGOs are flexible in providing adequate loan sizes to meet both seasonal and non-seasonal needs of MSEs (Xiang et al. 2014). Invariably, large loan sizes would help MSEs to expand their businesses to enjoy economies of scale. However, if the loan size is too small, it is likely to end up in household consumption rather than in the business which will defeat the purpose of such loans in supporting an income generating activity of clients (Bateman, 2010; Rodman, 2012).

Lastly, accessibility to loan is statistically significant at 5% level and correlates positively with sales growth. A unit increase in loan accessibility to MSEs has a corresponding increase in sales growth by 14.6%. Access to affordable loan to most



MSEs in Ghana is still a challenge and this creates a constraint to their growth (Beck & Demirguc-Kunt, 2006; Fatoki & Odeyemi, 2010). Since the formal financial sector in Ghana has not been able to integrate MSEs into the financial system due to their peculiar challenges, FNGOs intervene with their flexible loan products to support the income generating activities of microfinance. Therefore, loan accessibility correlating positively with sales growth is not surprising. This implies that loan accessibility by MSEs is not a challenge as far as FNGOs are concerned and this helps MSEs to engage in sales activities which increases their performance. In summary, *H1b*, *H2b*, *H3b*; *H4b* are accepted. Whiles the highest predictor of sales is loan accessibility (14.6%), the lowest predictor of sales is loan amount (8.9%).

### **The Impact of ET on Sales Growth of MSEs**

The availability of ET to MSEs has an impact on various growth dimensions including sales growth (Fatoki, 2011; Rambe & Makhalemele, 2015; Raven & Le, 2015). Astebro and Yong (2016) noted that since MSEs lack the necessary managerial skills that are needed to manage enterprises successfully, there is the need to provide them with various entrepreneurial and managerial skills which are intended to have an impact on their performance. The correlation results as indicated in Table 7.12 above shows that all the ET variables correlate positively with sales growth (ET content,  $r=0.075$ ), ET efficiency= $0.088$ , ET frequency  $r=0.247$ ) and ET accessibility,  $r=0.191$ . Secondly, from the regression results (Table 7.13), ET efficiency ( $\beta=0.047$ ,  $p=0.036$ ) and ET accessibility ( $\beta=0.058$ ,  $p=0.030$ ) are statistically significant at 5% level. Whiles ET frequency is statistically significant at 1% level ( $\beta= 0.194$ ,  $p= 0.000$ ), ET content is statistically insignificant ( $\beta=0.050$ ,  $p=0.063$ ). From the results, *H5b* is rejected whiles *H6b*, *H7b* and *H8b* are accepted.

Firstly, it is of importance to realise that MSE cannot be successful in any venture management process without being equipped with adequate managerial and entrepreneurial skills (Newman, et al., 2014; Rambe & Makhalemele, 2015). Even though training content correlates positively with sales growth, it is statistically insignificant ( $\beta=0.05$ ,  $p=0.063$ ). This implies that the current content of training programmes provided to MSEs by FNGOs does not have any significant impact on MSE sales growth. It has been noted that one of the reasons for the massive failure of MSEs particularly in Africa is the acute lack of managerial expertise (Chen & Thompson, 2016; Lofstrom et al, 2014). For instance, it has been estimated that about 73% of new ventures die within their first three years of existence in Ghana (Awal, 2017). Therefore, with the acute lack of managerial competence on the part of MSE owners, it is unlikely that MSEs can be successfully managed. Therefore, training content aimed at equipping MSE managers with the requisite managerial skills is therefore essential in increasing the sales performance of MSEs. However, with the current results, the training content of MSEs does not seem to have a significant impact on sales growth, hence there is the need for FNGOs to refocus the design of training content to have the desired impact on the sales growth of MSEs. This implies that skills such as marketing, customer service and product development should be emphasised in FNGO training programmes for MSEs.

Secondly, training efficiency is statistically significant at the 5% level and correlates positively with sales growth. A unit increase a unit increase in ET efficiency increases sales growth by 4.7%. Training programmes for MSEs need to be efficient in terms of cost, time, and impact if it is to meet the needs of MSEs (Alarape, 2007). When FNGOs do not provide efficient training programmes to MSEs, the value and interest for such programmes are usually undermined by MSEs. According to

Sabella and Analoui (2015), the selection of effective training delivery methods could have an impact on the efficiency of FNGO training programmes. Ment (2011) also indicated that the use of suitable training facilities may improve the efficiency of training programmes.

Similarly, the results also indicate that ET frequency correlates positively with sales growth. A unit increase in ET frequency increases sales growth by 19.4%. As indicated earlier, the frequency of ET programmes to MSEs promotes effective assimilation of new management methods, technology as well as product and service delivery methods (Karlan & Valdivia, 2011). The results, therefore, indicate that FNGOs provide very frequent training to MSE managers which have an impact on their performance.

Finally, ET accessibility correlates positively with sales growth and is statistically significant at the 5% level. This implies a unit increase in ET accessibility increases sales growth by 5.8%. Accessibility to ET programmes is an essential step to improving the managerial capability of MSE managers (Bager et al., 2015). This implies that where accessibility to ET programmes by MSEs is difficult, it would have a negative repercussion on their performance. However, the results indicate that MSEs engaged in this study had adequate access to ET from FNGOs which has an impact on their sales performance.

In summary, while *H5b* is rejected, *H6b*, *H7b* and *H8b* are accepted. From the results, the highest predictor of sales is ET frequency (19.4) while the lowest predictor of sales is ET efficiency (4.7%).

### 7.9.3 The Impact of MC and ET on Profitability Growth of MSEs

MC and its extended services in the form of ET provided by FNGOs offer a unique opportunity for MSE owners in Ghana to have access to credit facilities as well as ET programmes. Access to these resources increases the performance of MSEs in terms of profitability and financial self-sufficiency (Baughn & Neupert, 2003; Nagy et al., 2012). This section examines the impact of MC and ET on profitability growth of MSEs in Ghana. In examining the impact of MC and ET on profitability, the variables of both MC and ET were regressed against profitability whiles controlling for firm characteristics. The regression analysis of MC and ET on profitability growth is shown in Table 7.13 above.

In the regression model, the value of  $R^2$  is 0.172 and its adjusted value is 0.151. Inferring from the adjusted value, it means the MC and ET variable explains 15.1% of the variance in profitability growth of MSEs. The  $F$ -test also shows that the model has an  $F$ -change of 8.506 which is statistically significant at the 1% level indicating a strong model. The impact of both MC and ET on the profitability of MSEs is discussed below.

#### The Impact of MC on Profitability Growth of MSEs

From the correlation result (Table 7.12), all the variables of MC except for loan cost are positively correlated with profitability growth (Loan repayment method flexibility,  $r=0.158$ , loan cost,  $r=-0.042$ , loan amount,  $r=0.204$  and loan accessibility,  $r=0.252$ ). Secondly, the regression result (Table 7.13) indicate that whiles loan repayment method flexibility ( $\beta=0.071$ ,  $p=0.070$ ) and loan cost ( $\beta=-0.052$ ,  $p=0.071$ ) are statistically insignificant in explaining the profitability of MSEs, loan accessibility ( $\beta=0.141$ ,  $p=0.023$ ) is significant at 5% level. However, the loan amount ( $\beta=0.088$ ,

$p=0.000$ ) is statistically significant at 1 % level. From the results, while  $H1c$  and  $H2c$  are rejected,  $H3c$  and  $H4c$  are accepted.

Firstly, even though the loan repayment method flexibility correlated positively with profitability growth, it is statistically insignificant in explaining the profitability of MSEs in Ghana. Even though MSEs might be enjoying flexible loan repayment from FNGOs, this has not translated into their profitability. One factor which is suspected to be affecting the profitability of MSEs is the cost of MC from FNGOs. The current delivery of microfinance in Ghana has been commercialised whereby MSEs are faced with high-interest rates on their borrowed funds (Aboagye, 2012). Therefore, the cost of MC from FNGOs need to be considered along with the flexibility of repayment method in order to yield the desired result on the profitability of MSEs. Because as noted by Washington and Chapman (2014) access to flexible MC by MSEs with longer durations could have an impact on their profitability if the cost of such loans does not unduly disadvantaged MSEs looking at their resources challenges.

Secondly, the loan cost is also found to correlate negatively and statistically insignificant with profitability growth. The cost of the loan in terms of interest, processing charges and loan deposits increase the cost of doing business for MSEs especially the start-up ones. When this happens, it affects the profitability of the enterprise. The cost of loans is a challenge to the profitability of MSEs in Ghana because, profits made from the enterprise usually goes to pay for high-interest costs (Abor & Quartey, 2010; Agyapong, 2010). In fact, most MFIs charge not less than 72% on loans per annum and this adversely affects the performance and growth of MSEs. The cost of the loan has a reduction effect on cash flow of the business as payment of these costs (loan interest, processing fees and loan deposits) reduces

the cash available for business expansion purposes. FNGOs charge relatively cheaper interest on their loans. However, the results indicate that their interest is still high looking at the current performance of the MSEs they finance in terms of their profitability. The result, therefore, indicates that a unit increase in loan cost decreases profitability by 5.2% ( $\beta=-0.052$ ,  $p=.071$ ).

The results also indicate that loan amount is statistically significant at 1% and positively correlates with profitability growth ( $\beta=0.088$ ,  $p=.000$ ). This result shows that FNGOs are able to offer loan amounts that meet the needs of MSEs in terms of increasing their sales activities as well as meeting their long-term investment needs hence profitability. Usually, MSEs have not been financed adequately because of the fear of default which is usually associated with them (Ayayi, 2012). However, effective credit risk management and loan monitoring could be effective in reducing such default rates (Baklouti & Abdelfettah, 2013). The results, therefore, indicate that a unit increase in loan amount provided by FNGOs increases profitability of MSEs by 8.8%

Finally, the result also indicates that loan accessibility correlates positively with the profitability of MSEs in Ghana ( $\beta= 0.141$ ,  $p=0.023$ ). FNGOs have a sole mission of providing access to credit facilities for the purposes of venture creation and employment generation. Without this access, MSEs would be unable to engage in any meaningful income generating which has a welfare outcome both at the enterprise and household levels (Helmès, 2006). The general condition observed in Ghana is that access to affordable and cheap credit by MSEs is one of the challenges facing the sector. In fact, both state and private banks are unwilling to lend to MSEs because of the reasons as discussed in the earlier sections. However, the result indicates that FNGO clients have access to MC to meet their business

expansion needs which has a positive impact on their profitability. A unit increase in loan accessibility, therefore, leads to an increase in profitability of MSEs by 14.1%. In summary, whiles  $H1c$  and  $H2c$  are rejected,  $H3c$  and  $H4c$  are accepted. The highest predictor of profitability is loan accessibility (14.1%). However, the lowest predictor of profitability is loan amount (8.8%).

### **The Impact of ET on Profitability Growth of MSEs**

The previous discussions regarding the impact of ET on MSE performance highlight the fact that, due to the weak educational background of most MSE managers (63% of respondents have only primary education, Ref. Table 7.5), it is important to provide ET to MSE owners for the purposes of developing their competency and managerial skills (De Mel, McKenzie & Woodruff, 2014). The results as indicated in Table 7.12 show that all the ET variables correlate positively with profitability growth of MSEs in Ghana (ET content,  $r=0.057$ , ET efficiency,  $r=0.106$ , ET frequency,  $r=0.158$  and ET accessibility,  $r=0.106$ ). More so, the regression results indicate that ET content ( $\beta=0.044$ ,  $p=0.179$ ) and ET accessibility ( $\beta=0.024$ ,  $p=0.466$ ) are statistically insignificant in explaining the profitability growth of MSEs in Ghana. Also whiles ET efficiency ( $\beta=0.062$ ,  $p=0.022$ ) is significant at 5% level, ET frequency ( $\beta=0.147$ ,  $p=0.000$ ) is statistically significant at 1% level. From the results, whiles  $H5c$  and  $H8c$  are rejected,  $H6c$  and  $H7c$  are accepted.

Firstly, ET efficiency is statistically significant at the 5% level. A unit increase in ET efficiency to MSEs increases profitability growth by 6.2%. Efficient ET programmes are measured by the cost associated with them and their ability to address business challenges (Lincoln and Duñcet, 1995). Due to the limited financial resources of MSEs, they are always worried about the cost of training. In fact, one of the reasons many MSEs are not able to access training programmes is the cost and inefficient

delivery methods that are associated with them (Neirotti & Paolucci, 2013). However, since FNGOs do not charge for these training programmes, it is cost effective for MSEs, hence its impact on profitability growth.

Finally, ET frequency correlates positively with profitability growth and it is statistically significant at the 1% level. A unit increase in ET efficiency increases profitability growth by 14.7%. The general assumption is that managers who have frequent managerial training and capacity development in the required skills, perform their roles better and could have a maximum impact on their businesses (Dilani et al., 2007). Rauch et al. (2005) also indicate that looking at the low educational backgrounds of MSE owners particularly in developing countries, without frequent ET programmes, it is unlikely to develop their competency and managerial skills. MSE owners, therefore, need to have constant training programmes which refresh their knowledge of critical business management practices and new methods of management. The results indicate that FNGOs provide frequent training to meet the managerial needs of MSE managers and this has an impact on profitability growth. Since these training programmes are free to MSEs, it leaves cash back in the business for operational purposes and this eventually has an impact on the financial performance of the MSE. In summary, while *H5c* and *H8c* are rejected, *H6c* and *H7c* are accepted. From the results, the highest predictor of profitability growth is ET frequency (14.7) while the lowest predictor of sales is ET efficiency (6.2%). The results of the statistical analysis and hypotheses testing are presented in Table 7.14 below.



**Table 7.14: Results of Hypothesis Testing and Statistical Analysis**

Research Objective	Hypotheses	Dependent Variables	Descriptive Statistics	Hypothesis Testing	Sig.	Result
<b>Objective 1:</b> To assess the impact of FNGO services on the performance of MSEs principally through the provision of Microcredit in the Volta Region of Ghana	<i>H<sub>1a</sub>: Loan cost is negatively related to the employment growth of MSEs</i>	Employment Growth	Frequency distribution	Multiple regression	5%	<i>H<sub>1a</sub></i> =Supported
	<i>H<sub>1b</sub>: Loan cost is negatively related to the sales growth of MSEs</i>	Sales Growth			5%	<i>H<sub>1b</sub></i> =Supported
	<i>H<sub>1c</sub>: Loan cost is negatively related to the profitability growth of MSEs</i>	Profitability Growth			10%	<i>H<sub>1c</sub></i> =Not supported
	<i>H<sub>2a</sub>: Loan repayment flexibility is positively related to the employment growth of MSEs</i>		Frequency distribution	Multiple regression	5%	<i>H<sub>2a</sub></i> =Supported
	<i>H<sub>2b</sub>: Loan repayment method flexibility is positively related to the employment sales growth of MSEs</i>				5%	<i>H<sub>2b</sub></i> =Supported
	<i>H<sub>2c</sub>: Loan repayment flexibility is positively related to the profitability growth of MSEs</i>				10%	<i>H<sub>2c</sub></i> =Not supported
	<i>H<sub>3a</sub>: Loan amount adequacy is positively related to the employment growth of MSEs</i>		Frequency distribution	Multiple regression	1%	<i>H<sub>3a</sub></i> =Supported
	<i>H<sub>3b</sub>: Loan amount adequacy is positively related to the sales growth of MSEs</i>				1%	<i>H<sub>3b</sub></i> =Supported
	<i>H<sub>3c</sub>: Loan amount adequacy is positively related to the profitability growth of MSEs</i>				1%	<i>H<sub>3c</sub></i> =Supported
	<i>H<sub>4a</sub>: Loan accessibility is positively related to</i>		Frequency	Multiple regression	5%	<i>H<sub>4a</sub></i> =Supported

	<p><i>the employment growth of MSEs</i></p> <p><b>H<sub>4b</sub>:</b> <i>Loan accessibility is positively related to the sales growth of MSEs</i></p> <p><b>H<sub>4c</sub>:</b> <i>Loan accessibility is positively related to the profitability growth of MSEs</i></p>		<p><i>distribution</i></p>		<p>5%</p> <p>5%</p>	<p><b>H<sub>4b</sub></b> =Supported</p> <p><b>H<sub>4c</sub></b> =Supported</p>
<p><b>Objective 2:</b> To assess the impact of FNGOs services on the performance of MSEs principally through the provision of Entrepreneurship Training in the Volta Region of Ghana</p>	<p><b>H<sub>5a</sub>:</b> <i>ET content is positively related to the employment growth of MSEs</i></p> <p><b>H<sub>5b</sub>:</b> <i>ET content is positively related to the sales growth of MSEs</i></p> <p><b>H<sub>5c</sub>:</b> <i>ET content is positively related to the profitability growth of MSEs</i></p>	<p><i>Employment Growth</i></p> <p><i>Sales Growth</i></p> <p><i>Profitability Growth</i></p>	<p><i>Frequency distribution</i></p>	<p><i>Multiple regression</i></p>	<p>5%</p> <p>10%</p> <p>10%</p>	<p><b>H<sub>5a</sub></b> =Supported</p> <p><b>H<sub>5b</sub></b> =Not supported</p> <p><b>H<sub>5c</sub></b> =Not supported</p>
	<p><b>H<sub>6a</sub>:</b> <i>ET efficiency is positively related to the employment growth of MSEs</i></p> <p><b>H<sub>6b</sub>:</b> <i>ET efficiency is positively related to the sales growth of MSEs</i></p> <p><b>H<sub>6c</sub>:</b> <i>ET efficiency is positively related to the profitability growth of MSEs</i></p>				<p>1%</p> <p>5%</p> <p>5%</p>	<p><b>H<sub>6a</sub></b> =Supported</p> <p><b>H<sub>6b</sub></b> =Supported</p> <p><b>H<sub>6c</sub></b> =Supported</p>
	<p><b>H<sub>7a</sub>:</b> <i>ET frequency is positively related to the employment growth of MSEs</i></p> <p><b>H<sub>7b</sub>:</b> <i>ET frequency is positively related to the sales growth of MSEs</i></p> <p><b>H<sub>7c</sub>:</b> <i>ET frequency is positively related to the profitability growth of MSEs</i></p>				<p>1%</p> <p>1%</p> <p>1%</p>	<p><b>H<sub>7a</sub></b> =Supported</p> <p><b>H<sub>7b</sub></b> =Supported</p> <p><b>H<sub>7c</sub></b> =supported</p>
	<p><b>H<sub>8a</sub>:</b> <i>ET accessibility is positively related to</i></p>		<p><i>Frequency</i></p>	<p><i>Multiple regression</i></p>	<p>10%</p>	<p><b>H<sub>8a</sub></b> =Not supported</p>

	<i>the employment growth of MSEs</i>  <i><b>H<sub>8b</sub></b>: ET accessibility is positively related to the sales growth of MSEs</i>  <i><b>H<sub>8c</sub></b>: ET accessibility is positively related to the profitability growth of MSEs</i>		<i>distribution</i>		5%  10%	<b>H<sub>8b</sub></b> =Supported  <b>H<sub>8c</sub></b> =Not supported
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## 7.10 Chapter Conclusion

In summary, this chapter provides a discussion of the quantitative research findings which is focused on measuring the impact of MC and ET on MSEs' performance in terms of employment, sales and profitability growth. The discussion began with an analysis of the demographic and firm characteristics of the MSEs. This was to provide an in-depth understanding of the nature and characteristics of MSEs operating in the Volta region of Ghana. This analysis has been very insightful especially with regards to how these characteristics influence the performance of the MSEs. The first part of the discussion was to subject these firm characteristics (gender, manager's level of education, industry category and business age) to an examination through a regression analysis. The discussion provided evidence to the fact that these firm characteristics influence the performance of MSEs significantly.

Secondly, the chapter also discussed the impact of both MC and ET on the performance of MSEs in employment, sales as well as in profitability growth. The discussion provided evidence to the fact that both MC and ET have a significant impact on the performance of MSEs. However, the cost of MC is negatively related to the three performance indicators. For several decades, the cost of the loan has been one of the challenges facing the MSE sector in Ghana (Egyir, 2010; Kwakyi, 2012).

Finally, based on the regression models and the findings in the literature, six regression equations have been generated to satisfy the hypothesis indicated in chapter 5 and its subsequent breakdown in chapter 6. The findings and its subsequent discussion also revealed that the independent variables of MC represented by loan flexibility, loan cost, loan amount, loan accessibility and ET

variables also represented by ET content, ET efficiency, ET frequency, and ET accessibility are significant in predicting employment, sales, and profitability growth of MSEs in Ghana.

In conclusion, the analysis of the quantitative results in this chapter supports the proposed conceptual framework in chapter 5 for the impact of MC and ET on MSEs' performance in Ghana. Based on the results, therefore, *H1a, H1b, H2a, H2b, H3a, H3b, H3c, H4a, H4b, H4c, H5a, H5b, H6a, H6b, H6c, H7a, H7b, H7c, H8b* and *H8c* are accepted whiles *H1c, H2c, H5b* and *H8a* are rejected. However, this chapter cannot be conclusive on the impact of MC and ET on the performance of MSEs without recourse to the discussion of the qualitative results. The next chapter, therefore, discusses the qualitative findings of this study.

## **CHAPTER 8: QUALITATIVE RESEARCH FINDINGS**

### **8.1 Introduction**

The purpose of a triangulated study is for convergent validation or for the richness of a study (Fielding, 2012). Thus, it has the ability to blend two methods of inquiry for the purpose of external validity (Creswell, 2014). The previous chapter presented and discussed the quantitative research findings regarding the impact of MC and ET on the performance of MSEs in the areas of employment, sales, and profitability growth. This was done by using the quantitative data obtained from the 506 MSEs who were engaged in the quantitative study. Firstly, from the findings, it emerged that, firm characteristics such as gender, manager's educational level, industry category and business age have a significant influence on the performance of MSEs. Secondly, it emerged that both MC and ET have a positive impact on MSE performance in employment, sales and profitability growth. Even though the quantitative findings confirmed 18 hypotheses out of the 24, it is important to further interrogate the model from a qualitative point of view for the purposes of validation or rejection. In this chapter, therefore, the qualitative data obtained from the 10 MSEs regarding the impact of MC and ET on the performance of MSEs is discussed and supported by quotes from the respondents. This chapter, therefore, discusses the various themes identified through the interviews to cover the other soft issues which were not covered in the quantitative study. To perform the analysis relating to the impact of MC and ET on the performance of MSEs, the chapter employed Thematic Content Analysis (TCA), through data transcription. The TCA enabled the researcher to map out various topical issues which run through the qualitative data analysis (Boyatzis, 1998; Vaismoradi et al, 2013).

## 8.2 Microcredit and the Performance of MSEs in the Volta Region of Ghana

In the Ghanaian environment, microcredit remains a major source of financing particularly for MSEs who find it very difficult to access credit facilities from the commercial banks. However, the current nature of the microfinance market in Ghana has been of excessive commercialisation rather than as an instrument for poverty reduction (Arun, 2005). Many MFIs are no longer interested in the growth of the enterprises of their borrowers but are rather interested in growing their loan portfolios without paying adequate attention to the peculiarities which are associated with MSEs. One of the interviewees puts it this way.....“ *if you take a loan from some microfinance companies, they do not care if you are growing in your business or not, they are only interested in receiving their monthly repayments*” (Business Owner 1).

Regrettably, the Ghanaian microfinance situation can best be described as a mission drift where poverty reduction is no longer an important factor for extending microcredit to borrowers (Copestake, 2007). In a related study, Gyamfi (2012), observed that some MFIs in Ghana demand landed properties such as buildings from microfinance clients to be used as collateral to support loan applications which are obviously beyond the reach of MSE owners in the Volta Region of Ghana. This behaviour is contrary to the tenets of FNGOs. FNGOs are still noted to be sympathetic towards the growth of MSEs particularly those in the rural areas of Ghana where access to financial resources for business growth is either limited or unavailable. Even though other financial service providers such as Rural and Community Banks exist in the Volta region of Ghana, FNGOs have been noted to provide MC to MSEs which contribute immensely to their growth. One of the participants interviewed noted as follows..... “*FNGOs always support us, they are*

*very approachable, and they understand our needs. They also have a concern for our welfare” (Business Owner 2).*

However, FNGOs in their bid to provide MC in supporting the performance of MSEs are influenced by various coercive institutions such as the Central Bank of Ghana which insists on legitimising the work of FNGOs through various processes. It is important to mention that FNGOs need a supportive environment which does not undermine their institutional logic as well as their outreach services. In the African institutional environment, it has been observed that institutions which are set up to support MSEs and general entrepreneurial development are either weak, absent or ineffective due to several reasons (Sutter et al.,2013). An institutional environment is considered weak and ineffective when it lacks the capacity to ensure that markets run effectively or if their actions or inactions undermine these markets (Kistruck, et al, 2015). Undoubtedly, FNGOs work in the same environment where these institutional set-ups are ineffective. For instance, the formal registration of MSEs in Ghana could take several months due to ineffective and bureaucratic state institutions which are responsible for registering MSEs (Abor & Quartey, 2010). More so, various institutional structures in Ghana such as the National Board for Small Scale Industries (NBSSI), and the Ministry of Trade and Industry (MOTI) which are responsible for the welfare and growth of MSEs in Ghana undermine their own procedures due to corruption and ineffective decision making (Osei-Tutu, Badu, & Owusu-Manu, 2010). Consequently, these behaviour leads to the current high rate of MSE attrition in Ghana. Also, various institutional failures which are observed among the judiciary, contract enforcement agencies, the police service, the rising cost of financial capital and erratic changes in financial regulations remains a concern to FNGOs. In a related Ghanaian study of Adomako et al. (2015), it was found that



entrepreneurship development and organisational growth is largely hindered by numerous factors such as the high cost of settling claims, delays in court proceedings, bribery and corruption among state institutions and lack of property rights among others. According to Kistruck et al. (2015), the reason a higher proportion of businesses in developing countries remain informal and unregistered is the general failure of institutional arrangements that are established to support these businesses to formalise. This implies that weak institutions in Ghana could undermine the work of FNGOs in extending MC to MSEs (Castaño et al., 2015). DiMaggio and Powell (1983) also argue that FNGOs in their bid to extend both MC and ET to MSEs in Ghana are influenced by various coercive, normative and mimetic institutions which in most cases will cause a change in the direction, strategy, policy and service delivery of FNGOs to MSEs.

The work of FNGOs is an important contribution to economic development in the Volta Region and Ghana as a whole. In providing MC, FNGOs identify individuals who are poor but entrepreneurially active in an income generating activity. In most cases, FNGOs concentrate on extending financial services to women who seem to be active in rural enterprise projects and are willing to undergo a six-week entrepreneurship training which is given by the FNGOs. In extending MC to MSEs to have the desired impact on their performance, critical issues of MC such as the cost associated with such services, the adequacy of loan amount granted, the flexibility of loan repayment methods as well as accessibility issues are important factors. It is assumed that the more favourable these factors are to MSEs, the better the impact of microcredit on their performance. Therefore, the following sections examine the views of the interviewees regarding how microcredit offered by the FNGOs impact on their businesses positively in the Volta Region.

### 8.2.1 Loan Amount Adequacy and MSE Growth

Having access to an adequate amount of microcredit for business expansion purposes could improve the performance of MSEs in Ghana. Loan adequacy for MSEs in Ghana has been an issue of concern for the growth of the sector. Research evidence shows that most MSEs borrow from multiple sources due to the inadequacy of the loans received from their principal financial institutions (Baklouti & Abdelfettah, 2013). When loan amounts granted to MSEs are inadequate, it fails to serve the purpose for which the loan is granted (Beck & Demirguc-Kunt, 2006). On the other hand, when loans granted to MSEs are more than what is needed, it brings negative implications on the MSE since such loans get diverted into non-business purposes such as for household consumption (Bateman & Chang, 2012). One of the interviewees noted that..... *“sometimes the amount of loan granted to me do not serve the purpose for which the loan has been granted since it becomes too small for my business. Therefore, I go to borrow from another company to add to what has been approved for me by the FNGO”* (Business owner 4).

It is therefore expected that loans granted to MSEs should be adequate to meet the financial needs of MSEs. With adequate loans, the performance of MSEs is enhanced. Based on the above, the interviewees were asked about how sufficient the loan acquired from the FNGO was to their businesses. From the interviews conducted, it was confirmed that sometimes FNGOs reduce the size of loans applied by MSEs without adequate explanations and this does not work well for them. However, the majority of the interviewees also confirmed that the MC granted to them by FNGOs was sufficient and adequate in meeting their needs. The interview excerpt below attests to this.

*“The loan amount granted to me by my FNGO was not always sufficient to meet the financial needs of my business. Sometimes, the amount I apply for is reduced without any explanations to me. However, in most cases, the loan approved for my business is usually adequate and helped me to grow my business. The loan granted to me helps me to buy more stock to increase my sales especially during the Christmas period and other festive occasions, I sell enough to make enough profit” (Business Owner 1).*

This implies that adequacy of loans can support MSE’s growth by helping MSE owners to increase their sales which could lead to profitability. This bumper sale as indicated above is usually experienced during festive occasions such as Christmas and Easter where MSE owners make excessive sales. In times like this, it is expected that FNGOs provide adequate loans to MSEs in order to meet the high demand of the cherished clients of MSEs. This is particularly important to MSEs which are into the sale of foodstuffs, clothing, and other consumables such as alcoholic drinks. Therefore, seasonality is highly associated with most MSEs in Ghana. Presented below is how one of the participants described the situation.

*“I have observed that my profit margin increased over the years through the loan amount granted to me by my FNGO. I have made a consistent profit on my footwear business. However, my business is seasonal and during those seasons my profit level goes up” For the past three years, my FNGO grants enough loan to expand my business even though sometimes it brings a heavy repayment on me (Business Owner 2).*

It is also evidenced that the loan amount granted to MSEs had an impact on the employment growth of the MSEs interviewed. This is not surprising because FNGOs aim at creating employment through the support which is extended to MSEs in Ghana. In confirmation of this assertion, business owner 4 is quoted as follows.

*“The loan amount granted to me for my business was always sufficient. It was able to meet my needs and the intended purpose of purchasing the required quantity of stock for my shop. I must say that it increased my sales outlets from 1 to 2 within two years and that made me engage more employees to help me in my business. Currently, I have 5 employees managing my cement shop”*  
(Business owner 4).

The responses given by the interviewees above indicate that, the loan amount granted to the MSEs by FNGOs is adequate in meeting their financial needs. Also, the loan amount granted had an impact on the performance of the MSEs in the areas of sales and profitability growth as well as in employment generation.

### **8.2.2 The challenge of Loan Accessibility and MSE Growth**

As noted earlier, access to microcredit from MFIs in Ghana could be hectic for MSEs because of their inability to support loan applications with the required collaterals and other securities which is demanded by many commercial MFIs. There is therefore a huge access gap when it comes to financial resources for MSEs. Because of this challenge, most MSE owners depend on family members and other informal sources such as money lenders to finance their businesses which come with a high interest (Abor & Biekpe, 2014). With such a high cost of loans, profit levels of MSEs are likely to be affected. In furtherance of the issue of providing MC to the MSEs, the study sought the views of the interviewees regarding the accessibility of MC from FNGOs. The results provided were evident to support the view that MC from FNGOs was accessible to the MSEs in the Volta Region Ghana. Generally, almost all the interviewees were of the view that MC from FNGOs was easily accessible to them compared to the commercial MFIs which are operating in Ghana. Also, the evidence suggests that the accessibility to MC from FNGOs impacted positively on the performance of the MSEs in various growth areas such as sales, employment, and

profitability. However, one of the challenges identified by most of the interviewees is that FNGOs sometimes report fund shortages which affect accessibility to loans. This usually happens when the demand for FNGO loans becomes high. The interview excerpt from business owner 5 below reveals this challenge.

*“It is always easy to access loans from FNGOs. They are very accessible because their requirements are not difficult to meet. In fact, the accessibility gives me the opportunity to meet the seasonal needs of my customers which always increases my sales and profitability during these periods. But sometimes my FNGO informs our group that they do not have enough funds to disburse to us. This forces me to borrow from money lenders which is expensive for my business” (Business Owner 5).*

From the interviews, apart from sales and profitability growth as indicated above, it has also been observed that accessibility to MC has an impact on the employment generation capacity of the MSEs engaged in the study. However, many of them indicate the delay in loan approval and disbursement to be one of the concerns which serve as a barrier to access loans from FNGOs. See the interview excerpt below.

*“I always have access to MC from FNGOs. They are part of my business and are always willing to provide the needed funds to me. Since 2014, I have been able to increase my sales staff from 3 to 6 because the loans granted to me increased my sales activity in my stores which demands extra hands to support. One problem I have is that, sometimes, the loans don’t get approved on time and this affects my cash position” (Business Owner 3).*

The above findings on accessibility is an important selling point for FNGOs in the Volta Region of Ghana. Since FNGOs mainly work in rural areas in serving mainly poor individuals who are engaged in an income generating activity, access to their loans becomes easier for clients. This implies that the loans are usually accessed without much difficulty in terms of travelling distance as well as in meeting any tangible collateral requirement to support loans applications (Lee et al., 2015).

Accessibility to financial resources is very important in a country because, as argued by Andrianova et al. (2008), a well-functioning financial system which provides adequate access to financial resources promotes economic growth and creates employment opportunities in a country. Without this accessibility, the process of raising financial capital becomes extremely laborious and expensive for MSEs (Hamilton & Fox, 1998). However, the result as evidenced above indicate that even though MSEs sometimes face delays in loan approvals and disbursements, there is an adequate accessibility to MC which had a positive impact on their businesses in the form of employment generation, sales and profitability growth.

### **8.2.3 The cost of Microcredit Presents the Greatest Challenge to MSE Growth in the Volta Region of Ghana**

The cost of borrowing has the ability to affect the performance of MSEs. It is not surprising that loan cost correlates negatively with all the performance indicators observed in the previous chapter. The cost of credit generally in Ghana is high and unbearable for MSEs (Kwakyi, 2012). The evidence from the interviews indicates that FNGOs in the region charge on the average 6% per month which runs into 72% per year. The payment of this level of interest by MSEs could affect their cash flow as well as their stock intake. However, it is expected that when the cost of credit is bearable, it leaves much cash in the business for business expansion purposes hence growth in profitability. One participant observed that..... *“The cost of loans is generally expensive for me and my weekly loan instalment is unbearable. Sometimes I have to cut down my stock intake to meet my repayment obligations”* (Business owner 3).

In further interrogating the cost of loans to MSEs in Ghana, the study sought to ascertain the affordability of the cost of the loan obtained from FNGOs to the MSEs. The interviewees were asked to express their views whether the cost of the loan in terms of interest, processing fees as well as loan deposit was affordable. The results obtained indicated that the cost of the loan to MSEs was affecting them negatively. The interview excerpt below, for instance, highlights the cost element of loans obtained from FNGOs and how it affects MSE performance.

*“The interest from my FNGO is high. Sometimes I struggle to pay the instalments. It would have been preferable if it is reduced. Sometimes, the loan-deposit required becomes unbearable and the processing fee also becomes too high for me”. This affects my sales activity and the level of profit I make. I plead with the government to come to our aid to give us grants to do business (Business Owner 7).*

The above excerpt provides the basis for the need to reduce the cost of loans extended to MSEs in Ghana. This challenge has necessitated various government financial interventions in Ghana such as the Poverty Alleviation Fund and MASLOC. However, these government programmes could not support MSEs adequately due to over-politicisation and mismanagement. The need to reduce the cost of borrowing in Ghana remains one of the greatest challenges which MSEs endeavour to overcome. Even though FNGOs provide a relatively cheaper microcredit to MSEs, it does not work in the interest of MSEs particularly when all the profits made from their businesses goes to pay exorbitant loan interest. Business owner 5 had this to say regarding the cost of credit in Ghana.

*“The cost of the loan from my FNGO is expensive for my business. Because of this, I am unable to make a profit from my sales. Even though FNGOs are cheaper than even the Rural Banks in my town, I still wish that the loan interest is reduced. In fact, it is sometimes difficult to pay my loan instalment due to the high interest” (Business Owner 5).*

In another perspective, business owner 6 confirmed that the cost of the loan was unbearable, and this has affected even her ability to hire more staff. The interviewee has this to say.

*“The interest rate on the loan I was granted was 6% per month and it was a bit high for me. The current interest I pay does not allow me to save enough money to increase my sales activity hence profitability. This has also affected my ability to employ more staff. The interest has affected my business negatively. We have suggested to our FNGO to reduce the interest on the loans. We have also suggested to them to waive the cash collateral off. However, the FNGO has promised to reduce the interest rate but it is yet to be done” (Business Owner 6).*

The request for MSEs to provide cash collaterals before a loan is disbursed to them also puts a burden on MSEs. This implies that MSEs are supposed to save towards the deposit over several months or in most cases they are required to provide such cash collaterals upfront before disbursements are executed. The interview excerpt below provides a support for this assertion.

*“My FNGO always request for an initial deposit before disbursement. Usually, 20% of the approved loan is requested upfront. It is difficult sometimes to raise the deposit. In most cases, I borrow from my friends to pay my FNGO and when the loan is disbursed to me, I refund it to my friends (Business owner 10).*

The above discussion and the various excerpts from the interviews indicate that the cost of credit has remained the single most important challenge facing the growth of entrepreneurship in Ghana (Fatoki & Odeyemi, 2010). In developing entrepreneurial



opportunities and the creation of employment through MSEs, access to affordable and flexible credit is imperative (Ghosh & Tassel, 2013). Borrowing at a very high cost increases the operational cost of MSEs. The cost of loans from FNGOs is relatively high taking into consideration the operation of MSEs. Even though the cost of microcredit from FNGOs is cheaper than those provided by commercial microfinance providers, most of the interviewees confirmed that it would have been better to have a bit of reduction in the interest rate. When the interest rate of loans extended to MSEs is high, it raises their cost of doing business and this affects their profitability as well as other growth indicators such as employment and their ability to buy more stock to increase their sales. This high loan cost can be attributed to the generally high cost of financial capital in Ghana and the general unattractiveness of the Ghanaian MSE sector to attract a lower cost of capital.

#### **8.2.4 Loan Flexibility Supports MSE Growth**

The type of flexibility which is associated with a loan repayment method could impact positively on the performance of MSEs. In Ghana, most microcredit from MFIs has a repayment period ranging from 4 to 6 months for first cycle loans. It has therefore been observed that the durations given for loans repayment might affect the performance of MSEs due to their inability to adequately use the loans received (Meyer, 2002). It has also been observed that most MSE owners pay their first instalments from their loans since most MFIs do not offer any moratorium on their loans. In this section, the study intended to explore the views of the interviewees regarding the flexibility of the loan they acquired from the FNGOs. In this regard, the researcher asked about how flexible the loan was in terms of its repayment mode and instalment. The interview results revealed that the repayment was very flexible and had an impact on the performance of the business. However, some clients

sometimes experience repayment difficulties due to business challenges and the inability of FNGOs to offer long loan periods to MSEs. The interview excerpt below offers some explanation.

*“The loan repayment was very flexible to me. I mean, the repayment amount and the period were manageable because I was able to pay the monthly repayments without much stress on the business. Because of this, I am able to accrue enough money on weekly basis to buy more stock to increase the sales of my goods to my customers. However, sometimes FNGOs do not want to give us long loan repayment periods” (Business owner 5).*

Similarly, the excerpt from Business Owner 6 also confirmed that the period assigned for the loan repayment was flexible which has impacted on the employment growth of the MSEs:

*“The loan acquired from my FNGO has not always been smooth. I wish my FNGO gives me a longer duration to pay my loan such as two years or more to pay my loans. Usually, I take 1 year to pay my loans compared to other institutions which required customers to pay their loans within 6 months. Even though I prefer a longer duration, my current loans helped me to increase my sales activity with the loans and also to employ other staff to support the business. I employed one accounts officer from the beginning of the year to help me with the accounts and stock taking” (Business Owner 6).*

From the above findings, it is evident that loans acquired from FNGOs come with flexible repayment terms which have a positive impact on the sales, profitability and employment growth of the MSEs compared to other MFIs working in Ghana. However, clients might be more comfortable with a longer duration for their loans. Loan repayment flexibility enables MSEs to have access to adequate cash in the business and it also prevents default in paying such loans (Donou-Adonsoua & Sylwester, 2016). Indeed, flexible loan repayment method remains a characteristic of FNGOs and this has encouraged the patronage of their MC products by MSEs. The

results also indicate a general impact of MC on the three dimensions of MSE growth namely profitability, sales, and employment. The following interviewees have this to say.

*“With the injection of the loan, more staff and sales personnel were employed. The business has expanded, so more hands have been engaged in the job from two to three persons” (Business Owner 1).*

*“With the loan, I was able to purchase some other machines for production and this has increased my productivity hence I am able to employ additional one (1) person to help me. I was able to pay them adequately as well” (Business Owner 3).*

*“The loan helped me to expand my sales and in effect the need to add more workers to enhance the smooth running of the business. My business has improved drastically. With the proper utilisation of the loan, I am able to engage the services of more salespersons to help me in the shop” (Business Owner 7).*

*“The loan has helped me to expand my business which is a fashion design business. To meet the demands of my customers, I had to engage the services of more apprentices. I am able to hire the services of an additional sales personnel for my shop. Formally there was one shop attendance but now I have three shop attendants and I am able to pay them their wages” (Business Owner 9).*

The results also show that the minimum yearly sales and profit were reported as GH¢10,000 and GH¢4,000 respectively which were observed to have increased by 10% yearly. For example, business owner 2, 6, 7 and 8 has this to say:

*“Through the MC, I was able to lift the business from lower level to a higher level. Thus, I am able to open more branches at the various locations in the district and thus generating a lot of sales and profits. In general, loans from my FNGO has been a great support for my business” (Business Owner 2).*

*“After obtaining the loan I was able to increase workers and I was able to buy more goods and made more sales. For instance, I was able to sell between GH¢1,000 to GH¢2,000 every day. In a month, I am able to make a profit of about GH¢4,000 a month which eventually grew up to GH¢ 5000 a month” (Business Owner 6).*

*“The loan has enabled the business to grow and has expanded tremendously. With the loans, my working capital has increased and this has contributed to the growth and expansion of the business in achieving higher sales. I must confess that the MC has given me hope for the future” (Business Owner 7).*

*“Loan from the FNGO enabled me to buy more goods to meet high demand and this has increased the total customers I have. The business thereby is able to supply to meet the demands of customers and this has increased my profit level. The loan has gone a long way to affect my business positively” (Business Owner 8).*

From the above evidence, the results indicate that MC obtained from FNGOs has a positive impact on employment, sales, and profitability of the MSEs engaged in the study. This is evidenced by the fact that FNGOs are able to extend the adequate amount of MC which is accessible, flexible in terms of repayment to MSEs in Ghana to support entrepreneurial activities. FNGOs have therefore been instrumental in promoting employment generation through their activities. However, one major factor which undermines the activities of FNGOs in the region is the cost of MC which needs to be looked at. This is because the cost of MC has the potential to undermine the growth of MSEs in the region. The next section discusses how FNGOs use ET to impact the performance of MSEs in the region.

### **8.3 The Role of Entrepreneurship Training in the Performance of MSEs**

One other service which FNGOs provide to MSEs in Ghana is ET which seeks to develop the venture management skills of MSE owners. The connection between ET and performance particularly among large firms has long been established (Ibrahim, Soufani, & Lam, 2003). As noted in the previous discussions, the impact of MC can only be effectively realised if it is combined with the development of the human capacity and managerial skills of MSE owners. In Ghana, human capacity building

for MSEs has been neglected for a very long time and this has contributed to the current rate of attrition of MSEs in Ghana.

The most important reason for providing ET to MSEs is that most MSE owners do not have the privilege of formal education. Therefore, MSE owners who are provided with MC to engage in an income generating activity need to be provided with skills such as basic accounting, marketing, financial management, leadership, communication, negotiation and in some cases technical skills which are expected to have an impact on their performance. Usually, FNGOs conduct the training in groups which last mostly for 6 weeks. It is expected that MSE owners should attend every single training before loans are disbursed. During the course of the repayment cycle, MSE managers also attend ET programs intermittently to update their management knowledge and to deal with current challenges which are being experienced in the enterprise. However, in providing ET to MSEs, FNGOs are influenced usually by normative and mimetic isomorphic institutions which in most cases have the potential to affect the nature, method, content and accessibility to ET programmes (DiMaggio & Powell, 1983). These institutions usually attempt to instil appropriate behaviours among FNGOs to secure legitimisation for their services. However, it has been observed that these institutional isomorphisms could be dysfunctional and unproductive which may have a negative impact on the growth and outlook of FNGOs (Sutter et al., 2013). Against this backdrop, FNGOs are supposed to develop their own internal structures which can support their delivery of ET to MSEs effectively. For instance, FNGOs need to strengthen their training departments and other networks which can favourably assist them in providing ET to MSEs in Ghana. More importantly, FNGOs need to build the capacity of their training staff in order to identify the training needs of MSEs effectively. It is also expected that FNGOs are

able to develop various peer-networks which could support them in resource sharing to deal with the institutional inefficiencies in the Ghanaian system.

This is because, FNGOs need a supportive environment and institutions to be effective in serving the needs of MSEs (Mizruchi & Fein, 1999). More importantly, the delivery of ET programmes could make FNGOs competitive and distinguished in the Ghanaian microfinance market. The following sections examine the views of the interviewees regarding the impact of ET in terms of accessibility to training, the frequency of training offered by FNGOs, the efficiency of such training programmes, the content of ET and the general performance of their MSEs.

### **8.3.1 Accessibility to ET has the Potential to Improve MSE Performance**

Accessibility to quality ET programmes is one of the necessary factors in the development of MSEs (Al-Madhoun, 2006). In Ghana, most MSEs operate in rural settings where training opportunities are usually unavailable. Since most MSE managers do not have high formal educational backgrounds, extending access to ET programmes will support MSE managers to develop effective managerial skills and competencies (Fatoki, 2011; Neirotti & Paolucci, 2013). However, geographical locations of clients could pose a challenge when they have to access training programmes. Having access to ET programmes enables MSE owners to develop their skills which enhances the way MC is used. Newman, Schwarz, and Borgia (2014) argue that MSEs cannot be successful in managing their enterprise unless they have adequate access to ET to equip themselves with the necessary managerial skills. This implies that providing MSEs only with MC without ET may undermine the kind of impact MSEs could realise from using MC. Therefore, in response to the question of the accessibility to ET, all the interviewees expressed

that the training was accessible to them except for distance and proximity challenges. According to the results, having access to the FNGOs for training purposes was not difficult. However, it is suggested that FNGOs look at the proximity of clients to the training venues. An excerpt from Business Owner 1 in support of this is as follows.

*"Getting the FNGOs for training has not been a problem. They respond swiftly to our association's call whenever there is a need for acquiring skills in managing our business. Usually, we are trained in groups. The training provided by my FNGO help me to understand how to manage my business better. Because of this, my sales and profit have increased since 2015. My daily sales have also increased from GH¢ 500 to GH¢ 900 because of the customer service skills I currently practice. However, sometimes the distance from my town to the training centre is far and this affects my business" (Business Owner 1).*

In another vein, it has been observed that ET provided By FNGOs affects the MSEs positively in various growth areas. Business owner 6 has this to say.

*"We always have access to training from our FNGOs. Such training increased my awareness of new ways of doing business. For instance, I now know how to manage and control my cost of running my business which has increased my profitability since the time I started participating in the training programme". I am now able to save Ghc 20.00 from my daily sales and I am planning to use this savings to expand my business after six months (Business owner 6).*

As observed from the quantitative discussion (see Table 7.13), accessibility to ET has an impact on both sales growth and employment generation. However, access to ET does not have any impact on the profitability of the MSEs interviewed. This could be the case because it has been observed that the operational cost of the MSEs engaged in this study was high mainly due to the cost of borrowing from FNGOs. It is also assumed that in cases where FNGOs are short of funds, MSEs

borrow from informal sources such as money lenders to support their growth. This will definitely have a repercussion on the cost of operation which eventually affects the profit margin of MSEs.

### **8.3.2 Lack of Frequent ET Undermines MSE Performance**

The frequency of ET programmes is important to the performance of MSEs. MSE managers need to have constant training programmes which refresh their knowledge of critical business practices and new methods of management (Rauch et al., 2005). In this era of fast technological advancement and consumer sophistication coupled with the fact that MSEs operate in rural areas, there is the need to provide MSE managers with constant training programmes which are able to address current managerial difficulties as well as strategic needs of the business (Newkirk-Moore & Bracker, 1998). Interviewees were therefore asked about the frequency of training received from their FNGOs. According to the interview results, the training provided by the FNGOs is conducted on regular basis. However, clients prefer if it is organised monthly rather than the quarterly training which is currently being done. For example, business owner 4 provides this assertion.

*“My FNGO organises periodic training for all group members usually every 3 months. But I wish it is done monthly. The frequency of the training provides me with the opportunity to update my skills in managing my business which I can see has a positive impact on the business in terms of the growth of my sales which made me employ more hands last year to help me” (Business Owner 4).*

In another perspective, the interviewees asserted that training is very important to their businesses and for that matter, they receive such training on regular basis. However, the size of the training groups is a concern for some clients. Large training



groups can affect the efficiency of the training. For instance, business owner 6 stated as follows:

*“I need training very frequently and I wish it is provided by the FNGOs on monthly basis. Because frequent training provides me with the necessary skills regularly which helps me to understand the needs of my customers so that I can provide what they need. The previous years’ training has helped me to increase my sales and profit because I now understand the needs of my customers better. One challenge which is associated with our training is that sometimes the groups into which we are put, are too large for my liking” (Business Owner 6).*

The results above also confirm the finding in the previous chapter (see Table 7.12) which indicates that ET frequency correlates positively with MSE performance. The finding implies that the FNGOs provide ET for the MSEs regularly. ET to MSEs is supposed to be regular because, in most cases, the managers of MSEs lack the type of managerial skills which are needed to manage the venture successfully (Lofstrom, et al., 2014; Chen & Thompson, 2016). In fact, the collapse of many MSEs in Ghana has been attributed to this lack of managerial and technical skills (Agyapong, 2010).

### **8.3.3 The Content of ET programmes Determines its Impact on MSE**

#### **Performance**

The content of training programmes for MSEs is as important as the frequency and accessibility. Jantan et al. (2004) argue that the content of ET programmes determines its real impact on the beneficiaries. Similarly, De Mel et al. (2014) argue that ET programmes should be able to address the needs of MSEs rather than generic ET programmes which do not support the growth of MSEs. In this section, therefore, the researcher sought to find out the content of the ET programmes provided by the FNGOs and its impact on the performance of their businesses. It

was found from the results that the ET provided by the FNGOs to the MSEs cover a wide spectrum of knowledge required by the MSEs. Through the training programmes, skills such as in basic accounting, marketing and customer management skills were taught which supported the performance of their businesses. The training has therefore impacted positively on the performance of the MSEs. Business owner 4 is cited as follows.

*"I think the training provided by my FNGO is good for me. The training covered mainly accounting skills, customer service and financial management. Sometimes basic computer skills are taught. The training has improved the performance of my business since my sales and profit levels have increased through it. The only challenge we have is that sometimes the groups are so large which prevents many of us from participating effectively in the programme. We also plead that the training programmes should be brought close to our town" (Business Owner 4).*

Similarly, business owner 7 elaborated the following in relation to the ET received from FNGOs.

*"The training provided by the FNGOs mainly covers topics on how to manage our businesses and utilising the loan for more improvement in the business. Some of the topics that were covered during the training included proper records keeping including financial transactions, lessons on creativity, problem-solving, management skills, business creation knowledge and others. All these lessons have helped to increase my sales. Last year I also added 3 more staff to manage my new store in the market" (Business Owner 7).*

In relation to the impact of the training content on the performance of MSEs, business owner 10 stated as follows:

*"The training I receive from the FNGOs has helped to grow my business. This is because the lessons on good business management practices, customer relationship management, interpersonal relationship, proper financial records keeping have helped to increase my profit level since I am able to increase my*

*customers. With my new customer base, I am able to sell over GH¢ 1000 a week on very good market days "* (Business Owner, 10).

When providing ET to MSE managers, Alasadi and Al-Sabbagh (2015) argue that such programmes should be able to provide the necessary competency skills needed in successfully managing an enterprise. Also, ET programmes should focus on the provision of business creation, technical, human, and managerial skills (Sidek & Mohamad, 2014). This implies that content-rich ET programmes will provide the MSE manager with skills which are inimitable and also makes him competitive. More importantly, the content of all managerial training programmes should be tailored to meet the managerial inadequacies of MSE managers which should be achieved through an extensive gap analysis (Sabella & Analoui, 2015). From the above evidence, the result confirms that of the quantitative study which revealed that ET content correlated positively with all the performance indicators (see Table 7.13). It is therefore suggestive to state that the training provided by the FNGOs covers the acquisition of key skills that had an impact on the performance of the MSEs in terms of sales, profitability, and employment growth.

#### **8.3.4 The Efficiency of ET Programmes Increases its Impact on MSEs**

The efficiency of ET in terms of cost and time is also of essence in providing MSE owners with the required training (Lincoln & Duñcet, 1995). Efficient training programs should also be able to address the current challenges being faced by MSE managers in their businesses. This is because, evidence from research indicates that many small business owners attend training programmes with some identifiable business challenges in mind (Azila-Gbetteor and Adjimah, 2013). In relation to the efficiency of the training programmes, the interviewees were asked to explain how

efficient the training provided by FNGOs was in terms of the cost, time, and impact on the MSEs. The results obtained from the interviewees revealed that the training was efficient, timely and impactful on their businesses. Business Owner 9 has this to say.

*“The training was timely and free. The training was delivered at no cost to me. The training programmes were organised in such a way that it never disrupts my business schedules. Sometimes we have it on weekends when we are all free”* Apart from all these, it has helped me to increase my sales and even employ more sales staff. This is because I am able to practice what I have learnt from the training programmes in my business (Business Owner 9).

In another instance, an excerpt from Business Owner 7 confirms the importance of ET programmes provided by FNGOs to MSEs in Ghana.

*“I will never regard the training to be time wasted because I know the benefits it brings to bear on my business. In fact, it is very important. The training has helped me to increase my customers because of the way I treat them currently. This has increased my sales and profit level as well”* (Business Owner 7).

From the findings above, it can be said that the training provided by the FNGOs to the MSEs is efficient and this in effect has a positive impact on the performance of MSEs. This confirms the quantitative findings which revealed in Table 7.13, where ET efficiency was found to be statistically significant in determining employment, sales, and profitability of the MSEs. Therefore, the contribution of FNGOs in developing the human capital base of MSEs is very crucial since such services are offered without any cost to the MSEs. This implies that efficient programmes are judged by being able to resolve managerial difficulties as well as the cost associated with it. More importantly, the use of appropriate training delivery methods could contribute to the efficiency of such programmes (Buch & Bartley, 2002).

The general impact of ET on MSE performance is evidenced from the interviewees as follows:

*“The training provided has enabled me to manage my sales personnel effectively and adequately motivating them which make them put in more efforts in making the business grow. I am now capable to manage my business very well and this has helped increase sales revenue and profitability” (Business Owner 1).*

*“The training has helped me to organise the business and managed employees efficiently and effectively in achieving results. It has helped me to know when the business needs an additional salesperson or not. In fact, the training has helped me to strategies in managing my workforce thereby making good use of them. This has increased my profitability” (Business Owner 2).*

*“The training has helped instil financial discipline in me such that I am now spending money prudently. Thus, I do not spend money on everything but spending money now based on budget and I make sure I use business resources judiciously to the benefit of the business. This has resulted in increases in sales and profits” (Business Owner 4).*

*“The training has made me more versatile thus making me able to manage the business with ease. The training has improved my marketing skills, improved my daily work practices and helped improve my skills in customer relationship management. This has an impact on my sales revenue as well as the profitability of my business” (Business Owner 3).*

*“As a business owner, I have seen great improvement in my style of business management. Thus, the training has made me effective in managing the business as an entrepreneur in terms of resources. I can now save money on unnecessary expenditure to increase my sales activities. I have also been able to employ more staff to support me” (Business Owner 7).*

The foregoing findings confirm that of the quantitative study in the previous chapter as illustrated in Table 7.13. where it was found that ET has a significant positive impact on the performance of MSEs. It is well-noting that ET is a key factor in MSE's performance (Newman et al., 2014; Rambe & Makhalemele, 2015). Thus, the performance of the MSEs has improved after having received ET from FNGOs. ET

helps to unleash the potential of MSEs and thereby plays an important role in shaping the skills and business attitudes of MSE owners leading to a positive impact on business performance (Alasadi & Al Sabbagh, 2015).

#### **8.4 Modelling the Performance of MSEs through the use of Microcredit and Entrepreneurship Training**

The conceptual model presented below is a response to a research gap in search of a validated model for the delivery of MC and ET to MSEs in Ghana. As far as this study is concerned, this is the first time in the Ghanaian microfinance landscape a study of this nature is done. This study has addressed this gap by contributing to the entrepreneurship literature through the development of a theoretical model which identifies the use of MC and ET as a combined approach by FNGOs to have the desired impact on the performance of MSEs in the areas of employment, sales, and profitability growth. It is expected that other microfinance institutions such as rural banks, Tier 1 commercial MFIs and government-sponsored microcredit programmes could also adopt this model for the provision of microfinance to their clients.

The analysis of both the quantitative and qualitative findings from the MSE owners in Ghana provides some important insights and indicators which brings all the linkages to understand the factors which affect the performance of MSEs through the use of both MC and ET. The qualitative findings provided an in-depth understanding of most of the soft issues which were not captured in the survey. Issues such as training group sizes, issues of proximity to training centres and the issue relating to government institutions' inability to support the growth of MSEs adequately are some of the soft issues which were brought to bear as a result of the qualitative study. This model brings together the views of 10 MSE owners in Ghana who were qualitatively

investigated through interviews and triangulated with the perception of 506 MSE owners in Ghana who were quantitatively investigated regarding the impact of MC and ET on the performance of MSEs in the areas of employment, sales and profitability growth. In this study, these MSEs were clients of 4 FNGOs operating in the Volta region of Ghana. The results of the 10 interviews are in line with the 24 hypotheses.

Access to MC by MSEs promotes business expansion and the ability of the MSE to meet other financial needs of the enterprise. Access to finance influences other financial goals and business decisions of the MSE (Kuzilwa, 2005; Orser et al., 2006; Bastiéa et al., 2016). Andrianova et al. (2008) argue that access to various financial resources by the MSE has an impact on performance in terms of employment sales and profitability. Falco and Haywood (2016) in their research indicates that MC could have a positive impact on the performance of MSEs if it is used appropriately. The above assertions point to the fact that financial resources are very important for MSEs' growth and performance. For MSEs to use MC effectively, the cost associated with MC, its repayment flexibility, loan amount adequacy as well as general accessibility issues need to be addressed.

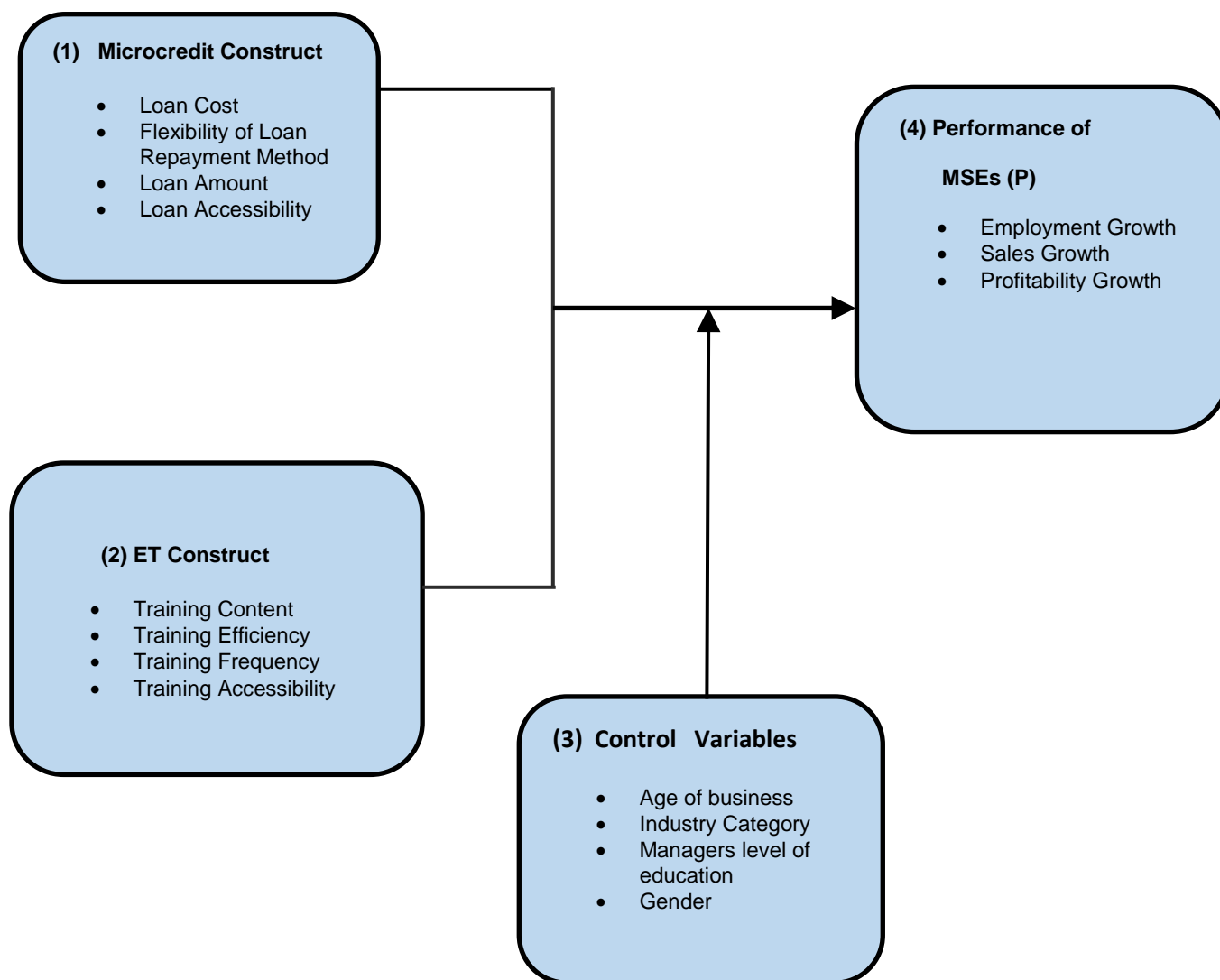
MSEs do not only need financial resources to be successful. MSE managers need to be provided with adequate ET to manage their enterprises successfully (Ladzani & Van Vuuren, 2002; Newman, Schwarz, & Borgia, 2014). MSE owners, therefore, need to be provided with adequate access to ET which is content-rich, efficient and frequent. This model therefore emphasises that ET should be delivered to MSEs with an integrated ET provision. In effect, the study suggests that ET should be incorporated into the provision of MC to MSE managers in Ghana at no financial cost

to the MSEs. The conceptual, framework, therefore, has been validated for the impact of MC and ET for MSE performance in Ghana.

In the provision of both MC and ET to MSEs, it has been observed that FNGOs are influenced by various institutional isomorphisms in the form of coercive, normative and mimetic institutions (DiMaggio & Powell, 1983). These institutions are likely to influence FNGOs in the delivery of MC and ET to MSEs due to the need to obtain legitimacy for services provided.

One other important aspect of this model is the various factors which are likely to influence the use of MC and ET by MSEs. This model considers that gender, manager's level of education, industry category and business age are important factors which are likely to influence MSEs in the use of both MC and ET to have the desired result on performance (Cooper, Gimeno-Gascon, & Woo, 1994). Finally, this model measures performance using three main indicators namely employment, sales and profitability growth. Even though there are many other ways of measuring MSE performance in the entrepreneurship literature, these three performance indicators have been selected because the researcher wanted to measure performance using an objective approach (Storey, 1994; Fatoki, 2011; Blackburn et al., 2013; Raven & Le, 2015). Figure 8.1 below presents the validated conceptual model for this study.





**Figure 8.1: The validated model for the impact of MC and ET on the performance of MSEs in the Volta Region of Ghana**

## **8.5 Conclusion**

This chapter has examined the impact of MC and ET on the performance of MSEs in Volta Region of Ghana by analysing the qualitative data obtained from the 10 MSE managers. Firstly, the chapter revealed that MC provided by FNGOs to MSEs is accessible, flexible, and bearable in terms of cost. Also, because of these attributes of the MC to MSEs, it had an impact on their performance in terms of sales, employment as well as profitability growth.

Secondly, the chapter has also established that the provision of ET contributed to improving the performance of the MSEs engaged in this study. It was revealed that the training provided by the FNGOs was accessible to the MSEs. The frequency of training provided for the MSEs was also found to contribute to ET in impacting positively on MSEs' performance. Another component of the ET which contributed positively to MSEs performance was the content of the training which was mainly on managerial, leadership, technical, financial management and operational skills acquisition. In summary, the qualitative study revealed that both MC and ET provided by the FNGOs have increased the performance of the MSEs in terms of employment, sales, and profitability growth. Finally, the chapter has also presented a validated model of MSE performance through the use of MC and ET. This model could be adopted in the delivery of MC and ET to MSEs in Ghana and elsewhere.

Finally, it is important to mention that since FNGOs provide both MC and ET to MSEs in the same environment where state institutions are void, there is the need for FNGOs to be supported by various institutions in Ghana to be effective (Hermes & Lensink, 2011). Institutional structures in Ghana such as the Central Bank, ASSFIN and other service providers whose work feed into that of FNGOs need to be

supportive to FNGOs. However, it is important FNGOs develop their specialised human resources to stay competitive among other MFIs in providing ET to MSEs. The next chapter presents the conclusions and recommendations for this study.

## **CHAPTER 9: CONCLUSIONS AND RECOMMENDATIONS**

### **9.1 Introduction**

This study investigated the impact of MC and ET provided by FNGOs on MSE's performance in the areas of employment, sales, and profitability growth in the Volta Region of Ghana.

Theoretically, this study adopts both the Institutional Theory and the Resource Based-View Theory to underpin this study. Based on the explanatory sequential triangulation method, the study used the mixed research strategy to investigate the sampled MSEs from the Volta Region of Ghana. For the quantitative study, 720 MSEs in the Volta Region of Ghana were sampled in March 2016 and finally, 506 MSEs were engaged in this study generating a response rate of 70.2%. For the qualitative part of the research, 10 MSE owners from the Volta Region of Ghana were also sampled and interviewed in April 2017. In pursuance of the research objective stated in chapter 1, the study has been able to achieve the following specific objectives:

1. Analyse the extent to which MC factors (loan amount, loan cost, the flexibility of loan repayment, and loan accessibility) impact the performance of MSEs in the areas of employment, sales and profitability growth in the Volta Region of Ghana.
2. Examine the extent to which ET factors (content, efficiency, frequency, and accessibility) impact the performance of MSEs in the areas of employment, sales and profitability growth in the Volta Region of Ghana.
3. Propose a conceptual framework for the delivery of MC and ET to MSEs in the Volta Region of Ghana.

This chapter has seven sections including the introduction. Firstly, based on the findings revealed in both the quantitative and qualitative data analyses, this chapter presents the summary of the findings and how the various hypotheses were supported. Secondly, the chapter also provides the contributions made in this study to the entrepreneurial finance literature regarding FNGOs and the impact of MC and ET on MSE performance. Thirdly, the implications for policy, practice and researchers are also provided in this chapter. Finally, the various limitations of this study as well as suggestions for future research are also presented.

## **9.2 Summary of Research Findings**

The research findings revealed in both the quantitative and qualitative data analysis chapters are summarised in this section. The findings summarised herein are based on the tests conducted on the 24 hypotheses which were presented in chapter 7 in terms of how the evidence produced in relationship to the impact of MC and ET on the performance of MSEs supports the hypotheses.

### **9.2.1 The impact of MC and ET on MSE Performance**

The main objective of the study is to measure the impact of both MC and ET on MSE performance in the Volta Region of Ghana. Upon investigation and examination of the data therein, the study found that the combination of MC and ET have a significant impact on MSEs at 1 % significant levels (employment,  $p=0.000$ ; sales,  $p=0.000$  and profitability,  $p=0.000$ ). With regards to the individual variables of MC and ET, Table 9.2 presents the results as to the various significance levels regarding all the variables. 18 hypotheses are supported whiles 6 are not supported.

**Table 9.2 Results of Hypotheses Testing**

Hypotheses	Sig.	Result
<i>H1a: Loan cost is negatively related to the employment growth of MSEs</i>	5%	Supported
<i>H1b: Loan cost is negatively related to the sales growth of MSEs</i>	5%	Supported
<i>H1c: Loan cost is negatively related to the profitability growth of MSEs</i>	10%	Not supported
<i>H2a: Loan repayment flexibility is positively related to the employment growth of MSEs</i>	5%	Supported
<i>H2b: Loan repayment method flexibility is positively related to the employment sales growth of MSEs</i>	5%	Supported
<i>H2c: Loan repayment flexibility is positively related to the profitability growth of MSEs</i>	10%	Non-supported
<i>H3a: Loan amount adequacy is positively related to the employment growth of MSEs</i>	1%	Supported
<i>H3b: Loan amount adequacy is positively related to the sales growth of MSEs</i>	1%	Supported
<i>H3c: Loan amount adequacy is positively related to the profitability growth of MSEs</i>	1%	Supported
<i>H4a: Loan accessibility is positively related to the employment growth of MSEs</i>	5%	Supported
<i>H4b: Loan accessibility is positively related to the sales growth of MSEs</i>	5%	Supported
<i>H4c: Loan accessibility is positively related to the profitability growth of MSEs</i>	5%	Supported
<i>H5a: ET content is positively related to the employment growth of MSEs</i>	5%	Supported
<i>H5b: ET content is positively related to the sales growth of MSEs</i>	10%	Non-supported
<i>H5c: ET content is positively related to the profitability growth of MSEs</i>	10%	Non-supported
<i>H6a: ET efficiency is positively related to the employment growth of MSEs</i>	1%	Supported
<i>H6b: ET efficiency is positively related to the sales growth of MSEs</i>	5%	Supported

<i>H6c: ET efficiency is positively related to the profitability growth of MSEs</i>	5%	supported
<i>H7a: ET frequency is positively related to the employment growth of MSEs</i>	1%	Supported
<i>H7b: ET frequency is positively related to the sales growth of MSEs</i>	1%	Supported
<i>H7c: ET frequency is positively related to the profitability growth of MSEs</i>	1%	supported
<i>H8a: ET accessibility is positively related to the employment growth of MSEs</i>	10%	Non-supported
<i>H8b: ET accessibility is positively related to the sales growth of MSEs</i>	5%	Supported
<i>H8c: ET accessibility is positively related to the profitability growth of MSEs</i>	10%	Non-supported

The study also found that controlling for firm characteristics (gender, industry category, manager's education and business age) MC and ET can influence employment by 32.8% ( $R^2 = 0.328$ ); sales by 28.5% ( $R^2 = 0.285$ ); and profitability by 17.2% ( $R^2 = 0.172$ ). Moreover, in addition to the impact of MC and ET on employment, sales and profitability, through the support of FNGOs, the MSEs have also been able to take advantage of business opportunities; improve their business funding capacity; numeracy and accounting skills; managerial capacity; use of business resources; technology capacity and gained customer relationship management skills.

### 9.3 Contribution to Knowledge

This study has made five major contributions to knowledge which are presented below.

Firstly, this study has made a theoretical contribution to the entrepreneurial finance

literature by developing and empirically testing a conceptual framework (Figure 6.3) that identifies a combination of microcredit and entrepreneurship training factors to have an impact on the performance of MSEs in three major areas of performance namely employment, sales and profitability growth. As such, a model has been developed for measuring ET and MC and its attendant impact on MSEs. This model can be used particularly in a developing country context by FNGOs, and other MFIs which adopt the social welfare logic in providing microfinance services to their clients. The model provides an understanding to the role of ET in the venture management process particularly in the MSE sector where specialised human resources are lacking (Odell, 2010; Yang & Konrad, 2011; Drexler et al., 2014; Aldén & Hammarstedt, 2016). Human capital development is essential in successfully managing MSEs which has a positive impact on their performance. The role of human capital development has not been fully researched and integrated into the delivery of microfinance services. Many MFIs focus on the provision of financial capital and increasing their loan portfolios but pay a little attention to the human capital development needs of MSEs and this has led to the failure of many MSEs as well as the MFIs themselves (Ladzani & Van Vuuren, 2002). The current realisation is that MC can have the intended impact on the performance of MSEs if it is combined with entrepreneurship training of the MSE owner, thereby leading to a sustainable employment, profitability and sales growth (Armendáriz de Aghion & Morduch, 2005; Carsamer, 2012; Annim & Alnaa, 2013).

Secondly, this study has also made a contribution to the empirical findings regarding the combined delivery of MC and ET which has a limited research attention in the microfinance literature. The results indicate a significant relationship between MC and ET and an impact on the performance of MSEs in the Volta Region of Ghana in



the areas of employment, sales and profitability.

Thirdly, the study has made a methodological contribution through the adoption of an explanatory sequential triangulation strategy to study microfinance in the Ghanaian landscape. Previous studies of this nature have adopted either a quantitative or qualitative strategy. The quantitative study involved 506 MSEs owners from the Volta Region of Ghana while the qualitative study involving 10 MSEs owners from the same region. The qualitative study serves as a validation process for the quantitative study and this provides a justification for a methodological contribution in this study.

Fourth, this study has made a specific contribution to the microfinance literature particularly in the area of FNGOs which has received little research attention in the microfinance literature. FNGO-based lending schemes in Africa date as far back as the 20th century notably in providing loans for small business development and poverty reduction (Moseley & Rock, 2004). Most FNGOs use solidarity group lending schemes to provide financial services to MSEs (Battilana & Dorado, 2010; Xiang et al., 2014). Despite their several years of support in providing entrepreneurial finance and other related services to MSEs in Africa, FNGOs have not received much research attention. Therefore, this study is a major contribution to the literature on FNGOs.

Finally, this study deepens the understanding of entrepreneurial development and the role of MSEs in the context of developing countries. MSEs are critical to the development efforts of developing countries in their attempt to create employment and increase economic growth (Agyapong, 2010; Teerakul, et al., 2012; Schramm, 2013). This study, therefore, contributes to the understanding of the nature, needs,

operation, and contribution of MSEs to economic development in the Volta Region and Ghana as a whole.

## **9.4 Implications for Policy and Practice**

The findings of this study have implications for policymakers and practitioners in microfinance and MSE development by using MC and ET as an effective tool for supporting the growth of MSEs in the Volta Region of Ghana. The implications for policy and practice are provided in the following sections.

### **9.4.1 Implications for Policy**

Since independence in 1957, successive governments in Ghana have in several ways developed and implemented national development policy framework that sought to create employment, reduce poverty, and improve the economic and social well-being of its citizens. This effort has also been extended to the Volta Region of Ghana. Evidence shows that some progress has been made in sustaining the economy and creating employment for the teeming masses through the development of the MSE sector in the Volta Region as well in the totality of Ghana (Agyapong, 2010; Mensah, 2004). However, looking at the current economic challenges and massive unemployment which currently exists in the region, there is the urgent need to deal with the situation using a holistic approach. This research has shown that MC and ET could be an effective mechanism for improving the performance of MSEs which are expected to influence poverty reduction in the Volta Region of Ghana. The study also shows that MC and ET have a significant impact on MSE employment, sales, and profitability. Therefore, there is the need for policy to be designed and existing ones reformed towards making MC and ET more accessible to MSEs to

achieve the desired goal of creating employment and reducing poverty in the Volta Region Ghana.

Government's policy schemes such as the Microfinance and Small Loans Fund, Micro-Finance Capitalisation Fund (MFCF), and the Poverty Alleviation Fund (PAF), as well as other Donor-Assisted SME loan projects such as the International Development Agency (IDA) fund for Small and Medium Enterprise Development (FUSMED) of the World Bank among others should be reformed whereby ET becomes an integral part of such programmes. The government and donor-assisted agencies for poverty reduction in the Volta Region should incorporate into their policies the adoption of the combined approach of MC and ET to enhance the effectiveness of such programmes. This will support the growth of MSEs which will increase employment opportunities in the region

Furthermore, the government's regulatory framework for small businesses should be friendly and favourable to allow for easy access to credit and other required resources in the Volta Region. Also, the Central Bank of Ghana should develop policies and regulations that seek to reduce barriers that constrain or inhibit MSEs from accessing credit from the mainstream financial institutions. This is because FNGOs alone are incapable of providing the necessary financial resources for MSEs considering the number of MSEs in the region currently.

The policies of the Central Bank should also be reformed in ensuring a conducive environment for financial institutions to set up units or departments which will see to MSE development in the region. This would go a long way in consolidating the efforts of MFIs in the provision of credit to MSEs in the region. In this way, other MFIs should incorporate into their credit delivery policy the provision of an effective ET to their clients.

#### **9.4.2 Implications for Practice**

Having considered the policy implications of the findings of this study, it is also imperative to provide implications for practitioners in the microfinance industry in the Volta Region of Ghana. In view of the findings, this study has set up a practical framework that needs to be followed appropriately in the operations of FNGOs and other MFIs in the region. In practical perspective, FNGOs including other MFIs operating in the region should ensure that the provision of MC is done alongside ET for MC to achieve its maximum impact on MSE performance. FNGOs and other MFIs should ensure that MC is accessible and should go with flexible loan repayment terms, adequate loan amount, and affordable processing fees, loan deposits and interest charged. Also, ET should be conducted frequently, efficiently and MFIs should ensure that it contains the requisite content for effective skills development of MSE owners in the areas of financial planning, marketing, customer service management, budgeting, and other needed skills to enhance business performance. FNGOs and other MFIs should adopt innovative credit management strategies that would enable the MSEs in the Volta region to have access to bigger loans to increase their entrepreneurial activities with recourse to the appropriate credit risk management systems. Increasing investments in sales activities and other areas of business expansion would generate the needed employment that is required in the Volta Region.

#### **9.4.3 Implications for Researchers**

This research on FNGOs has provided some insights which future researchers can take note of. Firstly, the collection of primary data of this kind can be difficult particularly in a resource constraint setting such as the Volta Region. It is therefore

important for the researcher to pave his way through the MFIs before getting to their clients. Most MFIs have the ability and strategy to organise their own clients. Therefore, it is important to work through the heads/CEOs of these MFIs in order to reach the MSEs. Secondly, in achieving a higher response rate as observed in this study, the researcher should be able to work through various microfinance group leaders who will be able to organise their members for the survey as well as the interviews. This is essential because group dynamics are very strong when it comes to FNGO's delivery of microcredit. Finally, it is important that researchers observe certain decorum when interviewing MSE owners in the region. This is because confidentiality is very important for MSE owners and this assurance needed to be given and observed.

### **9.5 Limitations of the Study**

As in any kind of research endeavour, this present research cannot go without any limitation. The findings of the research raised some theoretical as well as methodological concerns which demand further studies. Firstly, the general imbalance nature of both the quantitative and qualitative samples applies to this study. The quantitative sample of 506 as against 10 qualitative sample is a limitation of this study. This implies that future studies of this nature with a higher qualitative sample would improve the insight gained from this study.

Secondly, even though the research model was found to be effective in measuring the impact of MC and ET on MSE performance in the areas of employment, sales and profitability, the model does not empirically measure poverty reduction levels of the MSE owners in the Volta Region. Since the focus of this study is on MSEs, it is impossible for the researcher to measure the poverty reduction dimension which would be as a result of the performance experienced by the MSEs. This puts a limit

on this study because poverty reduction which is the major goal of FNGOs has not been measured. This, therefore, requires an extension of this study in providing evidence on the extent to which MC and ET have contributed to reducing both individual and household poverty among the poor in the Volta Region of Ghana. In this case, the research unit would be focused on the individual and the household but not the MSE as in this study. Finally, this study is a single regional study which has concentrated on the Volta Region of Ghana. This puts a limitation to this study. A cross-regional study would have provided a better insight into the impact of FNGO services on MSE's performance in Ghana.

## **9.6 Future Research Direction**

In view of the foregoing limitations, the findings from this study highlight some further research areas which future research could be focused.

Firstly, future research could focus on commercial microfinance institutions in the Volta Region rather than the poverty-oriented FNGOs used in this study to examine whether the financial services provided by such institutions are able to promote employment, sales and profitability growth of MSEs in the region.

Secondly, it is suggested that future research could be extended beyond the Volta Region of Ghana in testing the model proposed in this study. Probably other regions such as the three Northern Regions where several other FNGOs operate could be involved in a similar study. By so doing, the study could be replicated in other regions and eventually could be extended to cover the whole of Ghana.

Thirdly, future studies of this kind could consider using the Structural Equation Model for the quantitative analysis. This may present a more robust outlook regarding the model underpinning this study. Fourth, future research could also be focused on

investigating the training effects of both Tier 2 and 3 MFIs as against Tier 1 MFIs in the Volta Region of Ghana. In this case, the institutional types (based on their observed logics) could be used as mediating or moderating variables. The purpose is to compare MFIs which provide training to their clients and those which do not, to investigate the impact of their services on MSE performance in the region.

Finally, future research could incorporate the measurement of poverty levels of MSE owners in the Volta Region. Even though MC and ET are most effective in impacting on MSE performance in this study, it would also be of benefit to future researchers to extend this study by examining how as a result of the impact of MC and ET on the performance of MSES has poverty been reduced for the MSE owner and his household in the Volta Region of Ghana.

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## APPENDICES

### Appendix 1: Ethical Approval for Research Project

#### **ID114262 Atiase Ethical Approval - APPROVED**

**Gill, Sheila** <Sheila.Gill@wlv.ac.uk>

To: "Atiase, Victor" <vatiase@gmail.com>

Cc: MRCadmin <MRCadmin@wlv.ac.uk>

Fri, Mar 17, 2017 at 12:30 PM

Dear Victor

I am pleased to inform you that your Ethical Approval application ID117262 has been APPROVED.

Thank you for your prompt action with the previous queries.

Regards Sheila

**Sheila Gill**

Faculty Research Administrator

University of Wolverhampton Business School

Faculty of Social Sciences

MH Building, Room MH211

[T: +44 \(0\)1902 321748](tel:+441902321748)



## Appendix 2: Letter of Introduction to FNGOs in Ghana



Dr. Yong Wang  
Reader in Family Business &  
Entrepreneurship  
Head of the Doctoral Programme  
Department of Finance, Accounting,  
Systems, and Economics  
Wolverhampton Business School  
Faculty of Social Science  
University of Wolverhampton  
Nursery Street, Wolverhampton  
WV1 1AD, UK

Tel: 0044-1902-323964  
Email: [yong.wang@wlv.ac.uk](mailto:yong.wang@wlv.ac.uk)

The Chief Executive Officer  
..... (FNGO)

Ho, Volta Region-Ghana

13<sup>th</sup> March 2017

Dear Sir,

### **LETTER OF INTRODUCTION-PHD RESEARCH PROJECT**

I am writing to introduce Mr Victor Y. Atiase, who is a PhD researcher at the University of Wolverhampton Business School, United Kingdom. The purpose of this project is to investigate the impact of microcredit and entrepreneurial training provided by FNGOs on the performance of Micro and Small Enterprises in the Volta Region of Ghana. The motivation for this study is to contribute to the understanding of the work of FNGOs in the Volta region of Ghana.

The project includes two parts of data collection which will be conducted simultaneously. The researcher will collect quantitative data from your clients as well as conduct interviews to understand the services that FNGOs offer. Also, the researcher will have an informal discussion with the selected FNGOs in the project.

Please note that all information provided in this project will remain confidential and will be used anonymously for academic purposes only. Thus, the anonymity of your organisation and clients in this research is guaranteed. It is up to each of your clients to decide whether or not to participate in the research. Also, the participants are free to withdraw from the process at any time. The result of the

the project will be published in a doctoral thesis and academic journals. We will also endeavour to submit an abstract of the report to your organisation as a feedback into your activities.

Please if you have any concern regarding this research project, you may contact myself or the researcher.

**Contact Details of the Researcher:**

Victor Y. Atiase, Doctoral Researcher, University of Wolverhampton Business School,  
Wolverhampton United Kingdom, WV1 1AD [Tel:+447505220113](tel:+447505220113) Email: V.Y.Atiase@wlv.ac.uk


I would be very happy if your organisation could assist the researcher to undertake this assignment. I wish to thank you in advance for your cooperation and help.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Yong Wang', written on a white background.

**Yong Wang**

## Appendix 3: Quantitative Questionnaire for MSEs in Ghana

<b>UNIVERSITY OF WOLVERHAMPTON</b> <b>FACULTY OF SOCIAL SCIENCES</b> <b>UNIVERSITY OF WOLVERHAMPTON BUSINESS SCHOOL</b> <b>QUANTITATIVE QUESTIONNAIRE FOR MSEs IN GHANA</b>				 <small>UNIVERSITY OF WOLVERHAMPTON</small> <b>WOLVERHAMPTON</b> <small>KNOWLEDGE • INNOVATION • ENTERPRISE</small>	
<p><b>Dear Sir/Madam</b></p> <p>I am <b>Victor Y. Atiase</b> and I am studying for the Doctor of Philosophy degree in Business at the University of Wolverhampton, United Kingdom.</p> <p>I am now collecting data for my thesis titled: Assessing the role of FNGOs in the performance of MSEs for poverty reduction in Ghana.</p> <p>This survey collects data on your perception about the role of FNGOs in the performance of your business over the past three(3) years.</p> <p>Dr. Samia Mahmood and Dr. Yong Wang of the University of Wolverhampton Business School are supervising this study.</p> <p>I would be very grateful if you could spare 15 minutes of your time to respond to the following questions. Please you are advised not to write your name on this questionnaire as it is completely anonymous, used purposely for academic endeavour and shall be treated strictly confidential as much as possible.</p>					
If you would like to receive an executive summary of the research report, please tick the appropriate box.				Yes	<input type="checkbox"/> Yes <input type="checkbox"/> No
If you would like to participate further in this research, please tick the appropriate box.				Yes	<input type="checkbox"/> Yes <input type="checkbox"/> No
Thank you very much for your time and contributions.					
<b>FOR INTERNAL USE ONLY</b>					
Questionnaire Code:.....					
Date Administered:.....					
Date of Retrieval:.....					
Contact of Respondent.....					
Business Location:.....					
<b>INSTRUCTION</b> You are kindly requested to tick the box that best represents your biographic nature or perspective. Please specify where appropriate.					
<b>SECTION A: PERSONAL PROFILE</b>					
1. Gender:	Male	[ 1 ]	Female	[ 2 ]	
2. Age	Under 25	[ 1 ]	26 – 35	[ 2 ]	36 – 45 [ 3 ] 46-55 [ 4 ] (e) 55+
3. Marital Status	Married	[ 1 ]	Single	[ 2 ]	Divorced [ 3 ] Widowed [ 4 ]
4. What role do you play in this business?	Owner Manager	[ 1 ]	Owner	[ 2 ]	Manager [ 3 ] Other(Please specify) [ 4 ]
5. Highest level of education?	No formal education	[ 1 ]	Primary school	[ 2 ]	Secondary school [ 3 ] degree [ 4 ]
	Postgraduate degree	[ 5 ]	Other (specify)	[ 6 ]	
<b>SECTION B: BUSINESS PROFILE</b>					
6. Business Name:					
7. What is the nature of your business registration?					
a.Registras' General Department	Yes	[ 1 ]	No	[ 2 ]	
b.District/Municipal Assebmly	Yes	[ 1 ]	No	[ 2 ]	
8. Please categorise the legal form of your business by ticking the appropriate box	Sole proprietorship	[ 1 ]	Partnership	[ 2 ]	Limited liability company [ 3 ]
9. What are the major business activities(products and services of your business)					
a.	c.				
b.	d.				
10. What is the total capital invested into your business?	Ghc 500-Ghc 2000	[ 1 ]	Ghc 2001-Ghc 5000	[ 2 ]	Ghc 5001-Ghc 10,000 [ 3 ] Ghc10,001-Ghc 20,000 [ 4 ] Above Ghc 20,000 [ 5 ]
11. What are the main sources of your invested capital	Savings	[ 1 ]	Microcredit	[ 2 ]	Family and Friends [ 3 ] Government assistance [ 4 ] Others (specify) [ 5 ]
12. What is the age of your business?	Less than 2 years	[ 1 ]	2 – 5 years	[ 2 ]	6 – 10 years [ 3 ] 11 – 15 years [ 4 ] More than 15 years [ 5 ]
13. Which of the following industry is your business classified?	Agriculture	[ 1 ]	Manufacturing	[ 2 ]	Construction [ 3 ] General services [ 4 ] Trading [ 5 ]
	Hotels and restaurants	[ 6 ]	Education	[ 7 ]	Transport and distribution [ 8 ] Others(Please specify) [ 9 ]

SECTION C: THE PROVISION OF MICROCREDIT TO MSEs					
14. How would you agree to the following regarding the amount of loan granted to you by your FNGO for your business by rating on a scale between 1 and 5, where 1=Strongly disagree, 3=Neutral, and 5=Strongly agree?					
Loan Amount	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
14.a The loan I have acquired was not sufficient for my business	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
14.b Over the last three years, I am satisfied with the loan amount granted to my business	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
14.c The loan amount granted was less than the amount applied for	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
15. How would you agree to the following regarding the accessibility of the loan given to you by your FNGO by rating on a scale between 1 and 5, where 1 = Strongly disagree, 3 = Neutral, and 5 = Strongly Agree ?					
Loan Accessibility	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
15.a. I understand the loan requirements for accessing the loan	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
15.b. The application processes was not cumbersome to me	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
15.c. Over the past three(3) years, loan applications made to your FNGO was timely approved	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
16. How would you agree to the following regarding the cost of loan granted to you by this institution for your business by rating on a scale between 1 and 5, where 1 = Strongly disagree, 3 = Neutral, and 5 = Strongly Agree ?					
Cost of Loan	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
16.a. The interest charged on the loan is affordable to me	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
16.b. Processing fees charged is bearable to me	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
16.c. Loan deposit required is affordable to me	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
17. How would you agree to the following regarding the flexibility of repayment of the loan granted by this institution for your business by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?					
Flexibility of Loan Repayment	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
17.a. The loan repayment schedule is very flexible to me	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
17.b. The loan repayment amount is affordable to me	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
17.c. The loan term is convenient to my business needs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
18. How would you agree to the following regarding the purpose of the loan for your business by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?					
Loan purpose	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
18.a. The loan acquired was used for business purposes	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
18.b. The acquired loan was used for non-business purposes	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
19. How would you agree to the following regarding the usage of the loan for your business by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?					
Loan Usage	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
19.a. The loan acquired was used to purchase raw materials/stock/inventories	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
19.b. The loan granted was used to acquire fixed assets	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
19.c. The loan acquired was used to pay employee salaries	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
19.d. The loan acquired was used to pay for business rent	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
19.e. The loan acquired was used to pay for other business debt	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]

20. How would you agree to the following regarding the constraints in accessing microcredit for your business by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?

Constraints to accessing microcredit from FNGOs	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
20.a. Lack of collateral is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.b.Lack of entrepreneurial skills is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.c.Lack of credit history is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.d.Lack of business related experience is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.e.Poor financial records keeping is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.f.Long bureaucratic administrative processes is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.g.High interest rate is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.h.Lack of information about credit facilities is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
20.i.Competition from other MSEs is a constraint to accessing microcredit from FNGOs	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]

#### SECTION D: THE PROVISION OF ENTREPRENEURIAL TRAINING TO MSEs

21. How would you agree to the following regarding accessibility to entrepreneurial training from your FNGO by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?

Accessibility to Entrepreneurial Training									
21.a.It is not difficult to obtain entrepreneurial training from FNGOs?	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]				
21.b.Over the past three(3) years training provided by your FNGO has been satisfactory	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]				
<b>Frequency of Training</b>									

22. How would you agree to the following regarding the frequency of training from your FNGO by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?

Frequency of Training	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
22(a). You are satisfied with the frequency of training provided by your FNGO to you	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
22(b) Frequency of training does not disrupt your scheduled business activities	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
22 (c ) The frequency of training provided by FNGOs enables knowledge application	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
22(d)The frequency of the training provided by FNGOs encourages your participation in the training	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]
22(e)The frequency of the training provided by FNGOs ensures an update of current issues in your business	[ 1 ]	[ 2 ]	[ 3 ]	[ 4 ]	[ 5 ]

23. How would you agree to the following regarding the coverage entrepreneurial training provided by FNGOs by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?

Coverage of Training	Strongly disagree		Disagree		Neutral		Agree		Strongly agree
23.a.Training provided raised your general entrepreneurship awareness	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
23.b.Training provided business creation knowledge	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
23.c.Training provided knowledge on small business development	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24. How would you agree to the following regarding the content of the entrepreneurial training provided by FNGOs by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?									
Training Content	Strongly disagree		Disagree		Neutral		Agree		Strongly agree
<b>Managerial Skills Training</b>									
24.a.Training included lessons on new management methods	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.b.Training included lessons on financial accounting	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.c.Training included lessons on customer relationship management methods	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.d.Training included lessons on the use of management information systems	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
<b>'Soft' Skills Training</b>									
24.e.Training included lessons on the acquisition of leadership and teamwork skills	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.f.Training included lessons on creativity and problem solving skills	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.g.Training included lessons on the development of communication skills	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
<b>Technical and Operational Skills Training</b>									
24.h.Training included lessons on workplace safety	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.i.Training included lessons on the use of machinery and equipment	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.j.Training included lessons on manufacturing and service delivery methods	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
24.k.Training included lessons on new products and services	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
25. How would you agree to the following regarding the efficiency of the training provided to you by your FNGO?									
Training Efficiency	Strongly disagree		Slightly disagree		Neutral		Slightly agree		Strongly agree
25.a.Training was cost-effective	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
25.b.Training was timely	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
25.c.Training was well-delivered and understood	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
25.d.Training was beneficial for my personal development	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
25.e.Training resolved my current business challenges	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
26. How would you agree to the following regarding the quality of training provided by FNGOs by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?									
Quality of Training	Strongly disagree		Disagree		Neutral		Agree		Strongly agree
26.a.The Training has helped improve the business tasks identified	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
26.b.Training provided has improved the set performance standards of the business	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
26.c.Training has improved my skills in using business machinery and tools	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
26.d.The application of knowledge after training was possible	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]



SECTION E: MSE PERFORMANCE									
27. Indicate in the table below the number and type of job created between 2011 and 2016									
Employment Growth	2011		2012		2013		2014		2015
27.a.Number of full- time skilled employees									
27.b.Number of Full- time unskilled employees									
28. Indicate in the table below the sales revenue and profit between 2011 and 2016									
Sales Growth and Profitability	2011		2012		2013		2014		2015
	GH¢		GH¢		GH¢		GH¢		GH¢
28.a.Sales Revenue									
28.b.Profit									
29. How would you agree to the following regarding the impact of the microcredit provided by FNGOs on your business by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?									
Impact of microcredit on Business performnace	Strongly disagree		Disagree		Neutral		Agree		Strongly agree
29.a.Over the last three years microcredit accessed from FNGOs have enabled me to take advantage of business opportunities	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
29.b.Over the last three(3) years, microcredit from FNGOs has Improved my business funding capacity	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30. How would you agree to the following regarding the impact of the entrepreneururial training provided by FNGOs on you by rating on a scale between 1 and 5, where 1 = Strongly Disagree, 3 = Neutral, and 5 = Strongly Agree ?									
Impact of Entrepreneururial Training on managerial performance	Strongly disagree		Disagree		Neutral		Agree		Strongly agree
30.a.Training has improved my numeracy and accounting skills	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.b.Training has improved my managerial capacity	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
32.c.Training enabled me to use business resources effectively	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.d.Training has improved my technological capacity	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.e.Training has provided me an insight into product innovations	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.f.Training has provided me an insight into service innovations	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.g.Training has improved my business network(social capital)	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.h.Training has improved my marketing skills	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.i.Training has improved my daily work practices	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.j.Training has provided me an avenue for accessing vital business information	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.k.Training has improved my business research capacity	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]
30.l.Training has helped improve my skills in customer relationship management	[ 1 ]		[ 2 ]		[ 3 ]		[ 4 ]		[ 5 ]

## Appendix 4: Qualitative Questionnaire for MSEs



**UNIVERSITY OF WOLVERHAMPTON  
FACULTY OF SOCIAL SCIENCES  
UNIVERSITY OF WOLVERHAMPTON BUSINESS SCHOOL  
QUANTITATIVE QUESTIONNAIRE FOR MSEs IN GHANA**

**FOR INTERNAL USE ONLY:**

**Name of MSME**.....

**Questionnaire Code**.....

**Date Administered**: .....

**Contact of Respondent**.....

**Business Location**.....

## **INTERVIEW QUESTIONS**

### **SECTION A: PERSONAL AND MSE BACKGROUND**

1. Which factors motivated or caused you to start your own business?

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2. What role(s) do you play in this business?

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3. What is your highest level of education?

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4. What is the legal form of your business?

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5. What is the total capital invested into your business?

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6. What are the sources of your invested capital?

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7.Which industry does your business belong to? (List products and services)

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8.What is the total number of employees in your business currently?

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**SECTION B: THE PROVISION OF MICROCREDIT TO MSEs**

9.Can you explain how sufficient the loan acquired from your FNGO was to your business?

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10. Can you explain how accessible FNGOs are to MSEs in terms of acquiring loans for your business?

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11. How can you explain the cost of the loan acquired in terms of interest, processing fees and loan deposit?

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12. Can you explain how flexible the loan was in terms of repayment amount, tenor and schedule to your business?

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---

13.What is the purpose(s) of the loan taken from your FNGO?

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14.What did you use the loan acquired from the FNGO for?

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15.How often do you need a loan for your business? and at what stages of your business do you need a loan?

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16.Can you explain how the loan taken from your FNGO met your business needs?

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17.Were you able to pay your loan on time? What kind of challenges do you usually encounter during your loan cycle?

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### **SECTION C: THE PROVISION OF ENTREPRENEURIAL TRAINING TO MSEs**

18. Can you explain how accessible FNGOs are to MSEs in terms of acquiring business training?

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19. What specific weaknesses have you identified in your business for which you would like to receive a training?

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20. How would you assess the quality of the training received from your FNGO?

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20. Can you mention some benefits you have derived from the entrepreneurial training received from your FNGO?

---

21. Can you identify and explain the type of lessons that FNGOs provide in their training to you?

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---

---

22. Can you describe how the training provided by FNGOs meet your expectations?

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## **SECTION D: MSE PERFORMANCE**

23.Can you describe how the microcredit provided by your FNGO has increased the performance of your business in terms of employment, sales and profit?

### **Employment**

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### **Sales**

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### **Profit**

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**Do you the training provided has increased your performance over the years? If yes, how? If no, why?**

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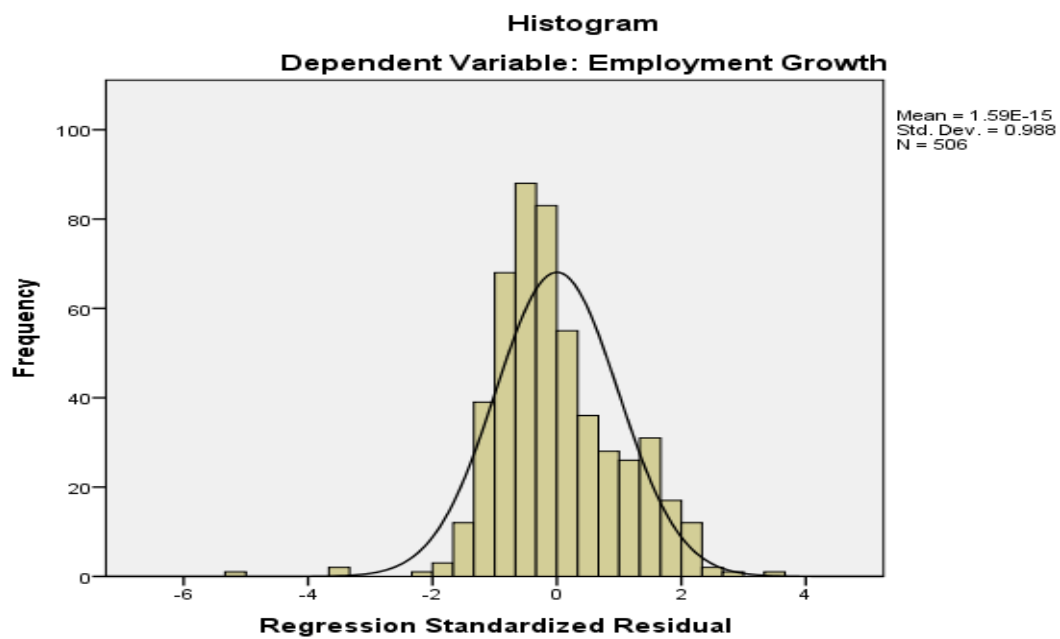
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## Appendix 5: Model Summaries and Charts

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.573 <sup>a</sup>	.328	.312	.385585	.328	20.059	12	493	.000

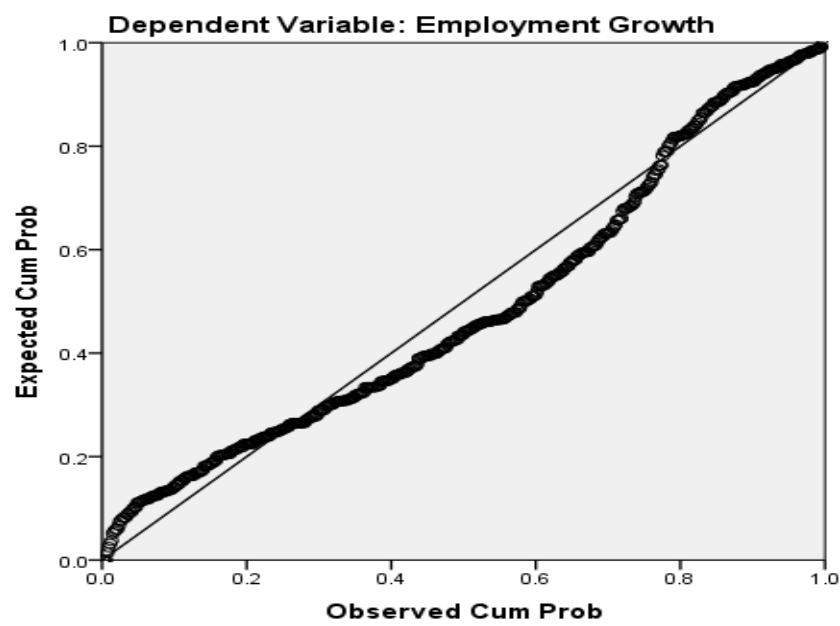
**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.788	12	2.982	20.059	.000 <sup>b</sup>
	Residual	73.297	493	.149		
	Total	109.085	505			

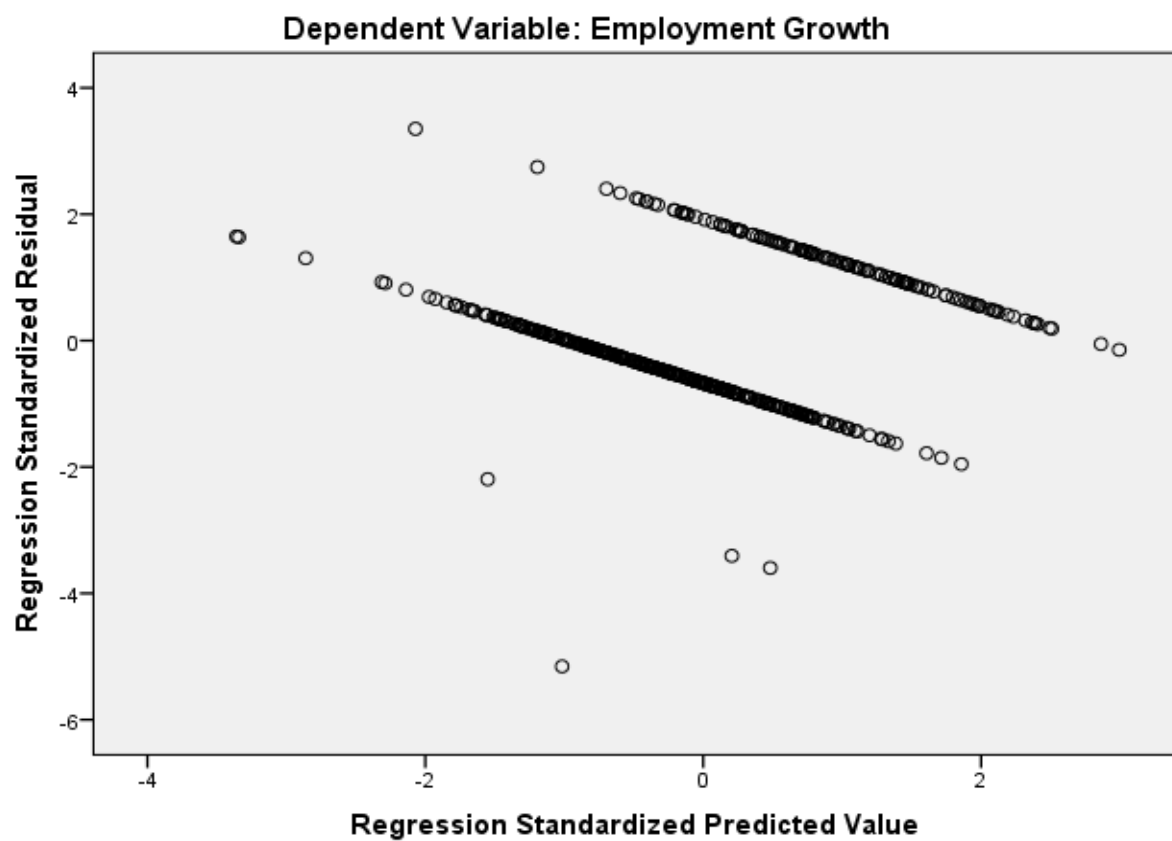




**Normal P-P Plot of Regression Standardized Residual**

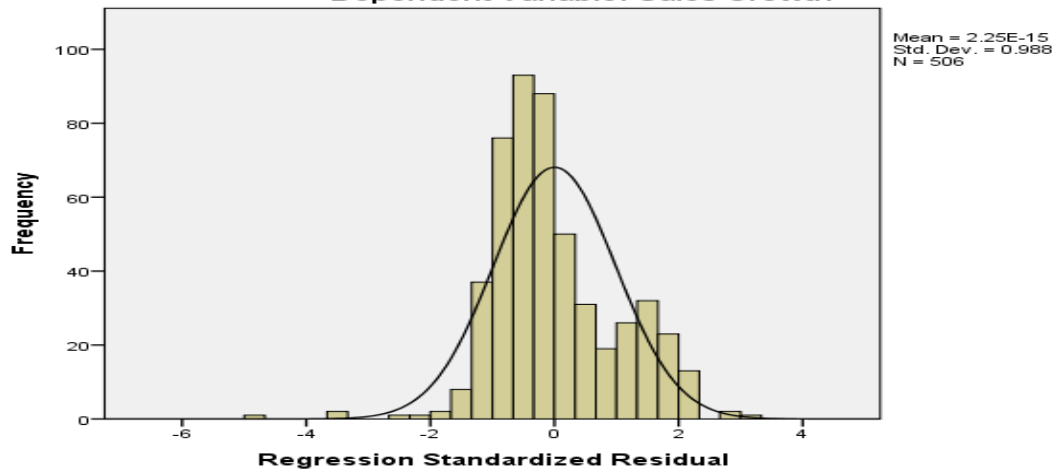
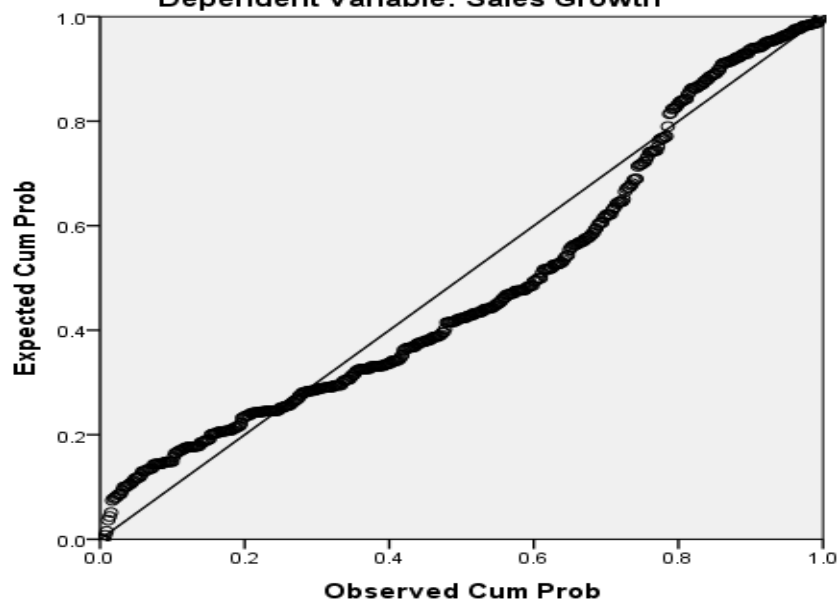


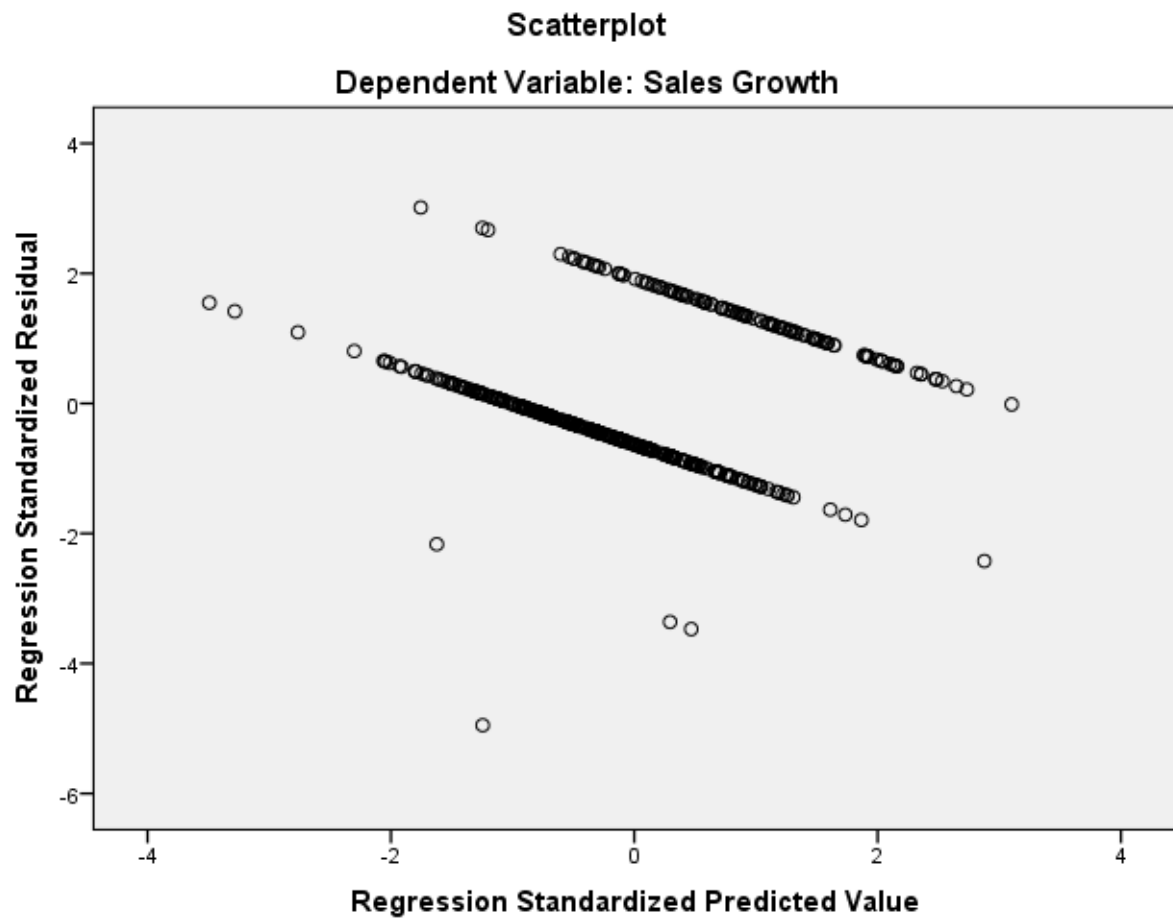
**Scatterplot**



**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.534 <sup>a</sup>	.285	.267	.392341	.285	16.367	12	493	.000

**Histogram****Dependent Variable: Sales Growth****Normal P-P Plot of Regression Standardized Residual****Dependent Variable: Sales Growth**

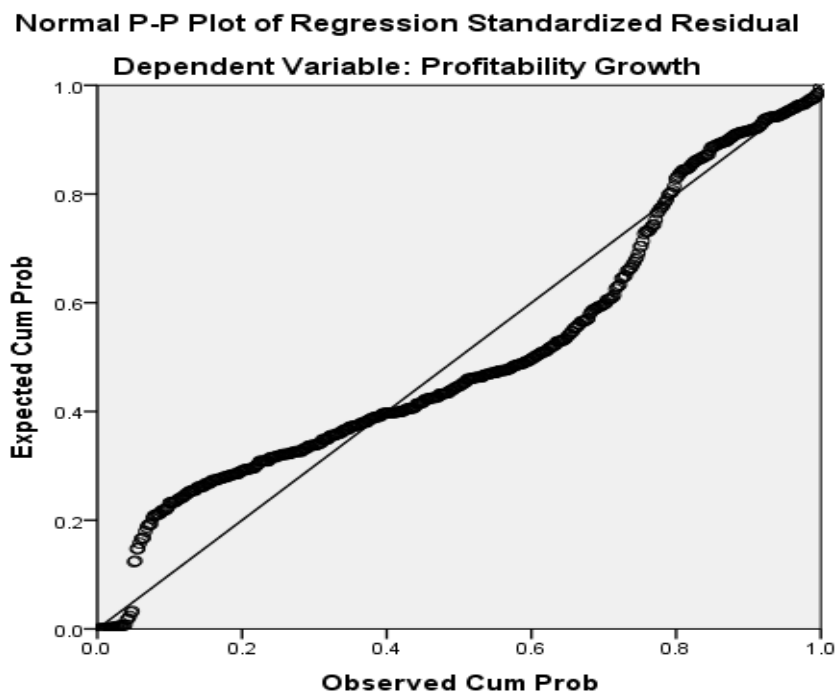
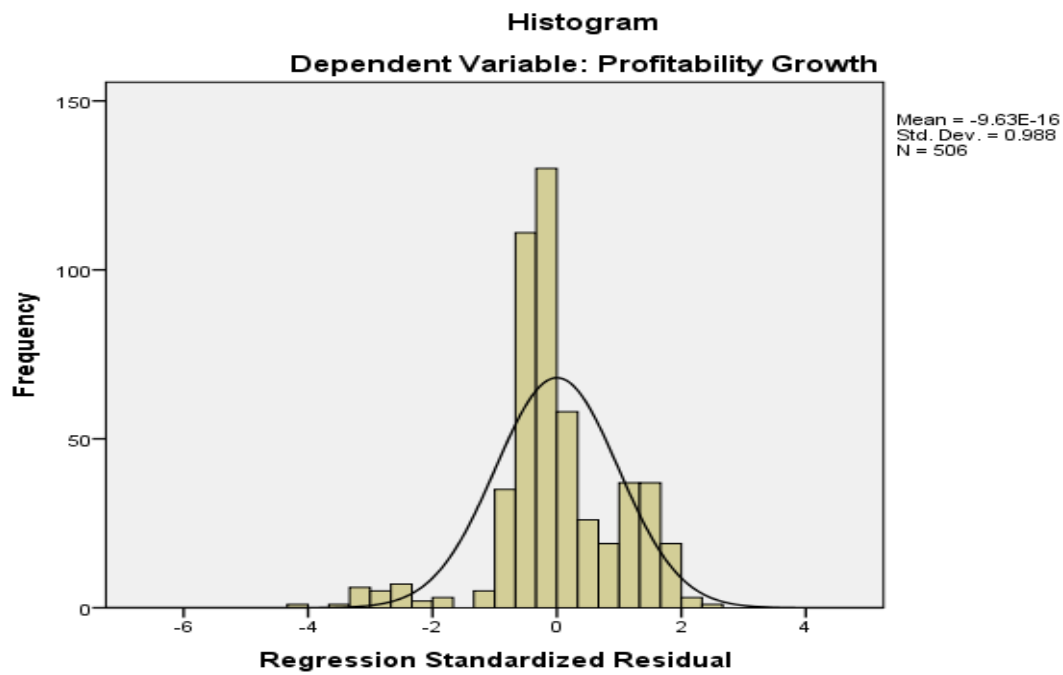


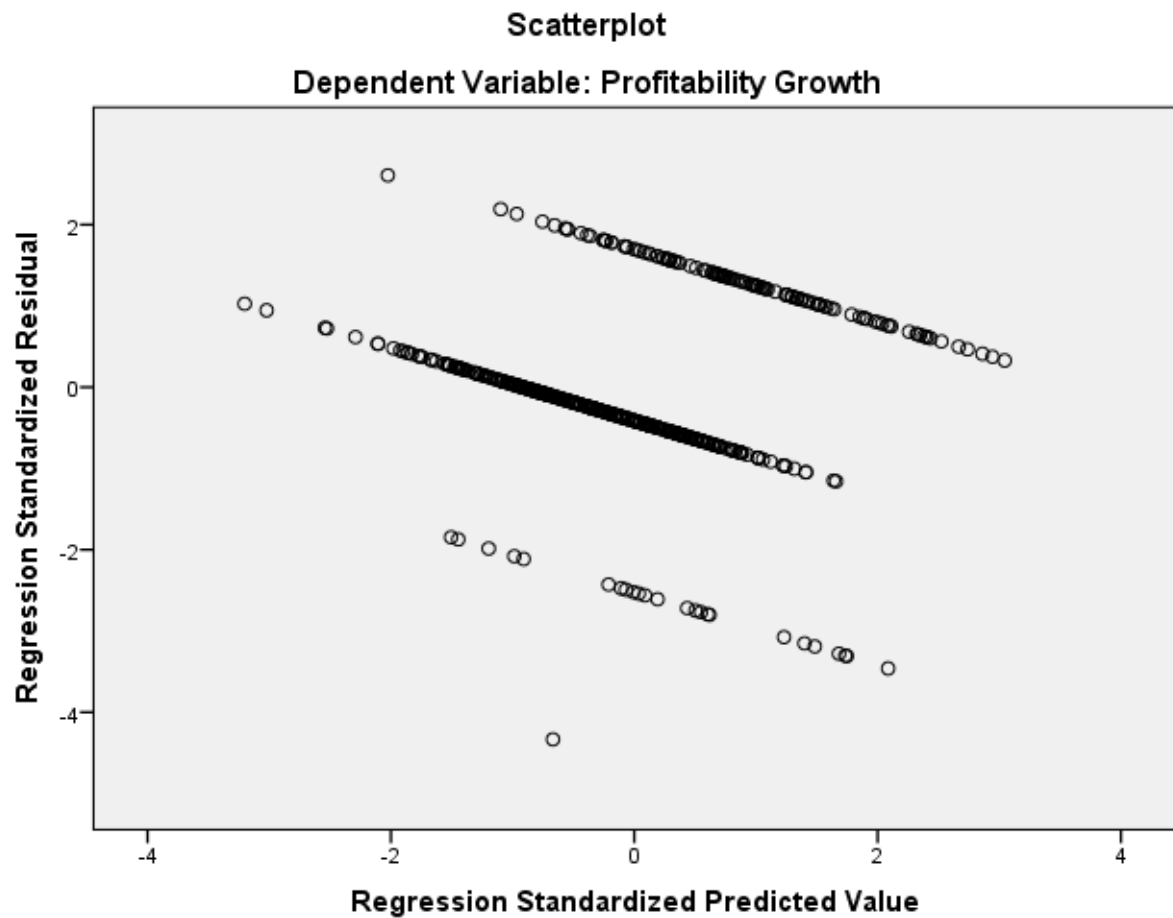
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.414 <sup>a</sup>	.172	.151	.473879	.172	8.506	12	493	.000

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.922	12	1.910	8.506	.000 <sup>b</sup>
	Residual	110.709	493	.225		
	Total	133.630	505			



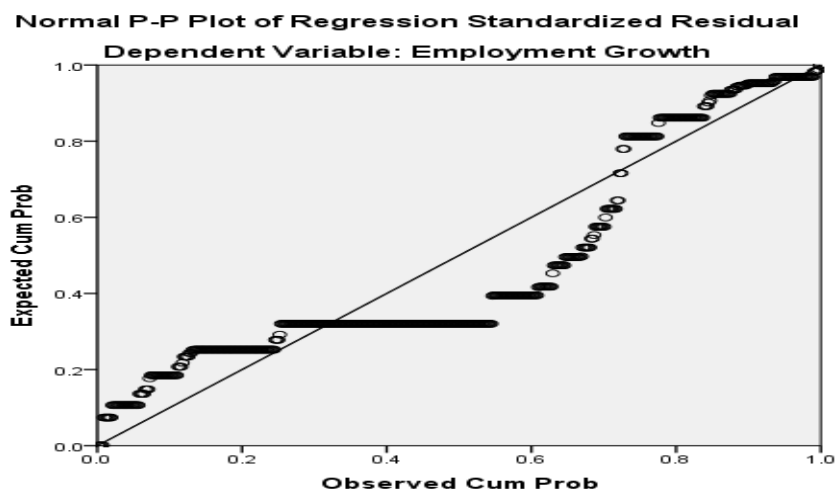
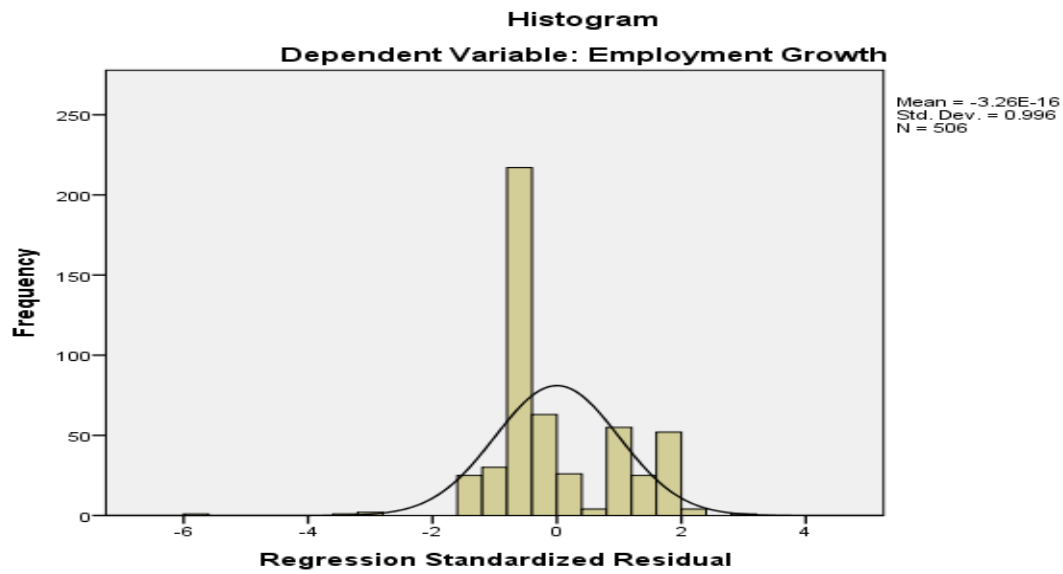


**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.395 <sup>a</sup>	.156	.149	.428695	.156	23.141	4	501	.000

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.012	4	4.253	23.141	.000 <sup>b</sup>
	Residual	92.073	501	.184		
	Total	109.085	505			





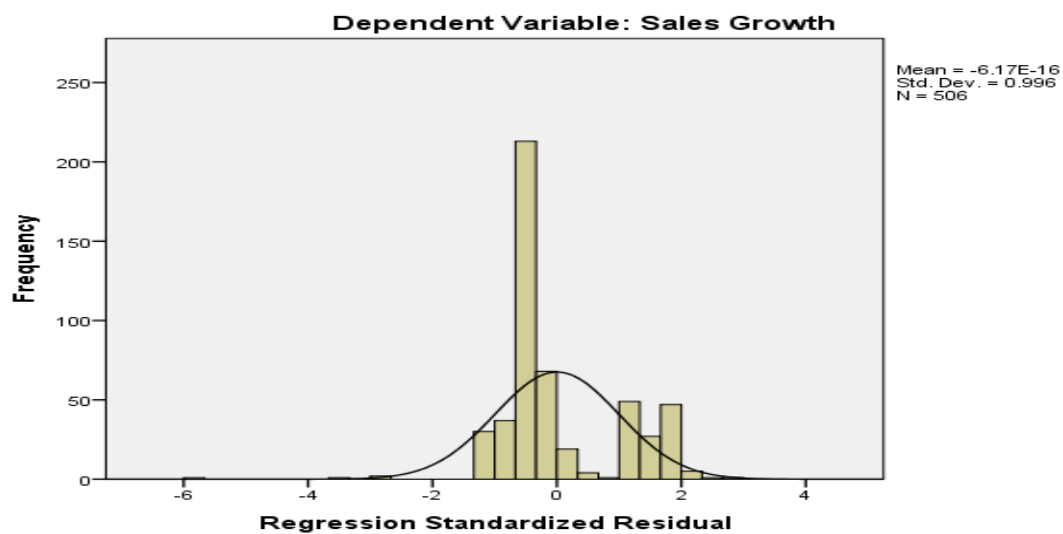
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.343 <sup>a</sup>	.117	.110	.432381	.117	16.658	4	501	.000

**ANOVA<sup>a</sup>**

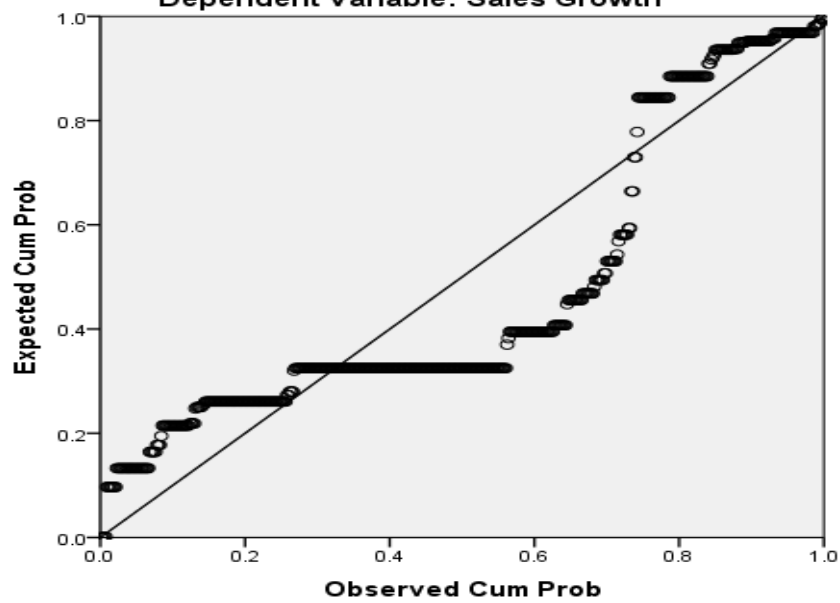
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.457	4	3.114	16.658	.000 <sup>b</sup>
	Residual	93.664	501	.187		
	Total	106.121	505			

**Histogram**



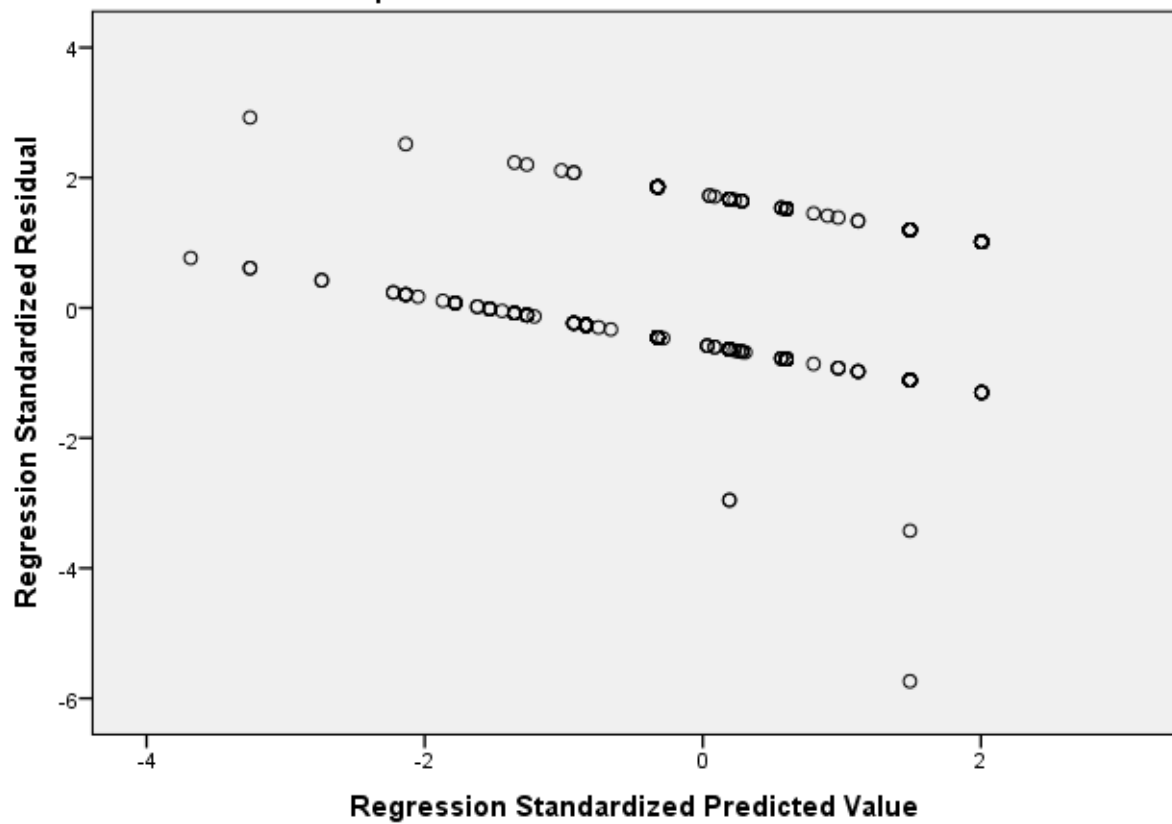
**Normal P-P Plot of Regression Standardized Residual**

**Dependent Variable: Sales Growth**



**Scatterplot**

**Dependent Variable: Sales Growth**



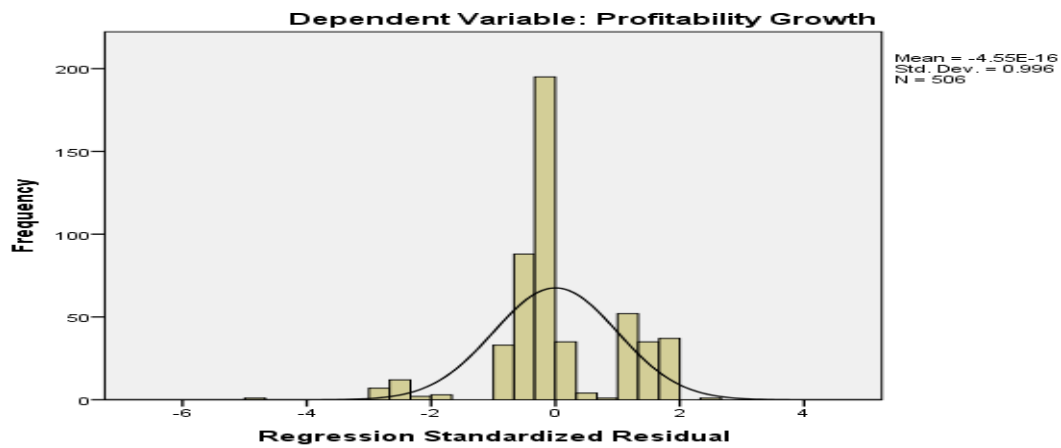


**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.278 <sup>a</sup>	.078	.070	.496036	.078	10.525	4	501	.000

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.358	4	2.590	10.525	.000 <sup>b</sup>
	Residual	123.272	501	.246		
	Total	133.630	505			

**Histogram****Normal P-P Plot of Regression Standardized Residual**